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1 April 1985

# **China Report**

## **ECONOMIC AFFAIRS**



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1 April 1985

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NATIONAL POLICY AND ISSUES

PRC ARTICLE ON UNIFIED ECONOMIC REGULATING MECHANISM

HK120919 Beijing GUANGMING RIBAO in Chinese 24 Feb 85 p 3

[Article by Wang Qihua [3769 1142 5478]: "Establish a Unified Economic Regulating Mechanism"]

[Text] Socialist planned commodity economy determines that the distribution of social labor is characterized by the dual character of planned economy and market economy. This objectively demands an organically structured economic regulating mechanism. Comrade Ma Jiaju [7456 1367 7467] said: The distribution of social labor under socialist planned commodity economy is an "integration of two entirely different regulating mechanisms," and characterized by "incomplete direct planning mechanism and incomplete market mechanism." What he said does not tally with facts. It is because planned economy is based on commodities, rather than products. The exchange of commodities among enterprises is the basis for the state to maintain an overall balance. There is no question of substituting planning mechanism for market mechanism. There is no question either of planning mechanism being better than market mechanism. They have their own functions, and neither can replace the other. If we rely on planning mechanism alone, the movement of planned economy can only follow a pattern of natural economy. If we rely on market mechanism alone, this also means deviating from the national conditions of China.

Planning mechanism based on planned commodity economy has three characteristics: 1) Establishing a planning management system with guidance planning as its core, and controlling and regulating, from top to bottom, the economic development of the whole country; 2) The state consciously making use of the law of value, with the main emphasis on systematically using economic levers, and guiding the enterprises to fulfill the state plan; and 3) Formulating and implementing policies for encouraging or slowing down economic development in accordance with the need to maintain the overall balance of the national economy. These three characteristics promote each other, and form the planning mechanism. In other words, only through the overall balance of state planning and making use of the regulating role of economic levers can the planned mechanism play its role of ensuring the planned development of the national economy. Under the condition of the existence of manifold economic interests, the utilization of economic levers cannot be separated from economic policy. In the meantime, economic levers are also the "carriers" for the implementation of state planning and economic policy. It is obvious that planning mechanism is a

"three-in-one combination" of planned targets, economic levers, and economic policy. Only by "binding" them together can they regulate production and circulation, and enable the state to exercise macrocontrol over the market.

We should stress here that in the course of fulfilling planning targets, we should mainly or substantially pursue guidance planning to maintain the flexibility of our plans for the market. At present, the reason we should still partly implement mandatory planning is not because of the objective congruity between production and demand for certain products. It is because, for a certain period of time, our productive forces will not be powerful enough, and commodity supplies will not be sufficient. It is not appropriate for us to work out full production plans, for basic means of production and means of subsistence in accordance with the changes in market demand. We should also implement a unified planned distribution system in this respect. This is a guarantee provided by the superiority of the socialist system.

Our purpose in making use of the unified economic regulating mechanism of socialism is to give play to the role of the "two mechanisms," and to ensure the proportional development of the national economy in a planned and coordinated way. With regard to the problem of proportional distribution of social labor, whether we pursue guidance planning or mandatory planning, we face the "problem of integrating planning with the market," that is, complete regulation by market mechanism. There is also the problem of macrocontrol over the overall planning of the state. This is a specific manifestation of "integrating planning with the market." In the movement of social economy, the role of planning mechanism can be summarized as decision ("complete planning mechanism"), guidance ("regulation by market mechanism under the guidance of state planning"), and supervision ("supervision and restriction under the overall planning of the state"). The role of regulation by market mechanism can also be summarized as: 1) paying attention to the market. In other words, in the specific process of implementing mandatory planning, we pay attention to various factors of market mechanism and market information, and transfer them to planning organs so that they can make use of them as data for amending state plans, or formulating new ones; 2) making use of the market. In other words, in the process of implementing guidance planning, the state makes use in a planned way of various factors of regulation by market mechanism, and the regulatory role of prices in particular; and 3) relying on the market. In other words, under the supervision of the overall planning of the state, we give full play to the role of market mechanism.

CSO: 4006/462

## NATIONAL POLICY AND ISSUES

### POPULATION, SOCIALIST ECONOMIC DEVELOPMENT

Beijing RENKOU YANJIU [POPULATION RESEARCH] in Chinese No 5, 29 Sep 84 pp 1-4

[Article by Xu Dixin [6079 3321 2450]: "On the Relationship Between Population and Socialist Economic Development"]

[Text] In society there is a very close relationship between its population and its economic development. The consideration of dealing with this relationship in an appropriate and suitable basis therefore becomes a very important problem. If this problem is dealt with appropriately, then the economic development in the society will be benefited and the living standards of its people will also rise rapidly. However if this relationship has not been dealt with in an appropriate way, then both the economic development in the society as well as improvements in its people's lives will change at slower rates. Since the founding of our country 35 years ago, we have had both positive and negative experiences in this aspect. It will therefore be beneficial for us to seriously consider and draw conclusions from all our experiences.

Within the last hundred years, because of the reign and suppression of imperialism, feudalism and bureaucratic capitalism and also before the Liberation, the economic conditions of our people had long remained in a state of destitution, great economic inflation and unproductivity. The situation that our country faced in 1948 at the founding of the PRC was that 90 percent of our population were living in the country and were not living human lives. Moreover both the agricultural and industrial productions have long remained in backward and static states.

Then under the policy of galloping inflation of the Guomingdang government, prices of all things soared, with several increases daily. As a result, both the unemployed and others who had lost their jobs flooded the cities and country, and the people also suffered extreme painful deprivation, with the work in education and culture having fallen behind naturally. It has therefore been a subject of enormous difficulty to change this situation of extreme poverty and great deprivation that had been left by history.

In these 30 years or so, although the economic building in our country has had certain relapses, in general, its rate of development has been relatively fast; and this is especially true after the 3d Plenum of our 11th Party Central Committee when economic building entered into a new stage of development.

In 1952, the production of grains was 1.639 billion tons; in 1978 it reached 3.047 billion tons; and this further increased to 3.872 billion in 1983, therefore representing a total increase of 1.4 times. In the production of cotton, in 1952 it was 130.4 million tons; this was increased to 216.7 million tons in 1978 and in 1983 to 463.7 million tons and therefore indicating an increase of 2.6 times. In the production of steel, the production in 1952 was 13.5 million tons, increasing to 317.8 million tons in 1978, and furthermore to 400.2 million tons in 1983, indicating therefore increased production of 28.6 times between the earliest and the latest years. In the yield of unrefined coal, in 1952, the yield was only 66 million tons increasing in 1978 to 618 million tons, and further in 1983 to 715 million tons, representing an increase of 9.8 times. In the production of unrefined oil, in 1952 the yield was only 440,000 tons increasing to 104.05 million tons in 1978 and to 106.07 million tons in 1983 indicating therefore an overall increase of 240 times.

The rapid economic development in our country has changed, therefore, the old destitute and backward face of the old China. Now our country has not only made changes in industry in having built our own technological standards with regulated production models as well as complete independent industrial systems; in agriculture we have also made fundamental changes and as a result, the total production of our grains, cotton, and oil already number among the best in world productions with our country therefore exporting instead of importing these items. The economic development in our country within the last 30 years has been enormous.

In our population, within the last 50 to 60 years, we have however not taken enough notice of the increase in our population. As a result, the rate of population growth has been quite fast.

Between 1949 to 1970, the growth rate in each individual year was more than 33 per mil with the natural rate at more than 20 per mil. Between 1966 to 1970, the natural rate of increase was at 26 per mil indicating therefore an increase of more than 100 million people in five years. This situation has therefore led to the discrepancy in the rates of growth between population and the economy. However since the 70's, we have been paying increased attention to the problem of population. We had begun to practice population control in the whole country, and emphasize the policy of population quality, and we have also determined this policy to be of a fundamental national one.

This national policy has indeed yielded obvious results in that the birth rate fell from 33.59 per mil in 1972 to 17.9 per mil in 1979, while the natural growth rate fell also correspondingly from 25.9 per mil to 11.66 per mil. Now we have entered the early 80's, and because the birth rate is at a high point, the birth rate and the natural growth rate have risen a little; yet as it has been shown by the census figures of 1983, the natural growth rate is at 11.54 per mil, which is the lowest rate since the founding of our country.

Within the last few years, because we have co-ordinated the economic development with population control, the rates of growth of both have therefore been

similar, changing also the formerly disparate developments. The primary results have been as follows:

- 1) The co-ordination between the rates of population growth and the rate of consumption expenditure. Between 1952 and 1971, in the whole country, while consumption expenditure went up by 5.3 percent, the natural growth of population increased by 2.1 percent and the difference between the two was therefore 3.3 percent. However, between 1971 and 1982, the average rate of consumption expenditure increased by 7.8 percent, while the natural rate of population growth fell by 1.6 percent indicating therefore an increase in consumption expenditure of 6.4 percent and also an overall faster rate of increase in consumption expenditure.
- 2) The population increase is now also more in line with the development in housing, hygiene, transportation and other causes. Just after our country's founding, the average size of housing for each persons was 4.5 sq. m. with the figure diminished to 3.6 sq. m. in 1977. However within recent years, with the increased effort in building in the cities and towns and the tighter control of population growth in the cities and towns, the average size of housing in 1982 had therefore increased to 5.6 sq. m. In the areas of doctors and hygiene, although the number of doctors had increased from 1952 to 1971, yet because of the faster population growth rates, the average number of doctors per 1000 population increased from 0.74 in 1952 to 0.84 in 1971, indicating therefore only a limited increase. However in 1982, this figure had jumped greatly to 1.29 percent showing therefore a greater number of doctors among the population.
- 3) Recently progress has also been made in solving the problem of employment. The figures of the unemployed in 1979 were 90,260,000 and 90,000,000 in 1980, and 82,000,000 in 1981, and 66,500,000 in 1982. The number of the unemployed in the cities has also diminished greatly. According to the 1982 population census figures, it accounted for only 2 percent of the populations in the cities and towns.

Nevertheless, for the moment, there still remain considerable problems between the population growth and the economic development. In other words, we still have to go one step further in solving problems that are still present between population and employment, between population and education, and between population and the people's lives.

From our experience in dealing with the relationship between the population and economic development in the country during the last 30 years, I feel that we must first of all uphold the viewpoint of the Marxist-Leninist doctrine, which correctly analyses the overall internal relationship between the two sides, without separating them into a polarity, or partially emphasising either side.

The Marxist-Leninist doctrine has determined that the economic development in a society does not depend on its population, but on its system of production. Marx has said, "The production formula in materialism regulates all aspects of

societal, political and spiritual lives"; (From THE COMPLETE WORKS OF KARL MARX, Vol 13, p 8) and "Both the great strength and the ultimate causes for the important historical events depend on the economic development in a society." (From THE COMPLETE WORKS OF KARL MARX, Vol 22, p 346.)

The economic development in a society determines its population in the following ways: Firstly it places restrictions in the conditions of both the survival and growth of population, since material production directly controls the number and quality of a population. In addition, economic development also conditions the independently produced pattern of population growth namely in the formation of marriages and families; in the distribution and migration pattern of the people, and directly or indirectly influencing the classes, employment, professions, cultural education and minorities societies in a country.

When we see the determining effect of the production formula and the economic development on its population, we must also see the influence in reverse, namely the result of population on the economic development in the society. This is because population is the principal subject in the lives in a society as well as the presupposition in its material resources production, since a population's figure, quality, components, distribution and migration plus all the variant changes must either advance or hinder the economic development in the society. As examples, in some sparsely-populated countries where, although there is a lack of adequate labour force, its economic development is prosperous, then an increase in its population will quicken its economic development further. On the contrary, in other countries where there is a large population with a slow economy but rich resources, then an increase in its population will slow down its economic development.

In the question of the reverse effect that population may have on its economic development, we should neither exaggerate nor look down on it. If we exaggerate the influence of population on the economic development and therefore consider that the population growth is the determining factor in both the economic development and the changing qualities in a society's system, then we will post a view that stands in polarity to the Marxist-Leninist doctrine. Yet we must not ignore such reverse influence of the population, thinking that a population has no or insignificant influence on its economy. Our experiences have shown us that in certain concrete situations, sometimes the growth of a population is still a relatively important influence on the rate of the economic development and therefore it should not be taken lightly. Indeed if we ignore such reverse influence, then a disparate relationship may develop between the population and its economy.

Every person both produces and consumes. As a producer, each person in turn is the creator of a society's wealth. Looking at the role of people in a society's economic development, it is man as producer that is of primary importance, since the wealth that is made by each person in general usually surpasses his consumption. This characteristic therefore has caused the continual development in production, the continual rise in the standards of living, and the growth of material and spiritual cultures in a society. Based on this, we therefore say that man is the most valuable factor in a society.

However we should also realise that as a producer, each person has his own conditions. Marx has pointed out that, "Regardless of the method of production, the labourer and the production material are both the factors of production. These two factors, when separated, become the factor only under certain conditions. In order to have production, the two must be united." (From Marx's DAS KAPITAL, Vol 2, People's Publisher, 1975, p 44.) In order for men to be realistic producers, they must be considered together with the quantity of production material, and in addition, the people's ages, physical health, cultural level, and technical abilities must all be taken into consideration.

The same time as we see people as the producers, we must also see them as consumers. From each person's birth through to his death, he consumes, and therefore his survival as well as the rise in his standards of living must be conditioned by sufficiency in the material of living. Therefore we must take both sides of man equally, namely his production and consumption roles. If we do not consider the realistic conditions and consider man only as a producer, then we may arrive at the erroneous belief blindly namely that "the larger the population, the better it is." On the other hand, if we consider man purely as a consumer, then we may pessimistically think that "A large population will only lead to increased consumption and this will leave the population forever in a destitute state." Such are therefore the new and old points of view of Marxism.

Based on the guidance of the Marxist-Leninist doctrine, we should take note of the following important points in our actual work of dealing with the relationship between population and economic development: 1. Because in a society, the economic development is the determining influence in the society's progress, its economic growth as well as changes in its people's lives, we should therefore use economic development as the basis and prerequisite in dealing with problems in the population's employment, education, its growth, the people's lives and the environment. If we do not have a definite economic basis, then what can we use to settle the employment of a population that is close to a few million in the cities? What can we use to develop the causes of culture, education and hygiene? And how can we improve the people's living standards? Recently within the last few years, the fact that we have been able to attain some success in dealing with these few aspects, must be related to the great achievements we have had in economic development since the founding of our country when we began to put our effort in economic building.

2. The economic development in a society cannot solve the problem of population. In addition, neither can we wait for the economy to develop before getting round to dealing with the population problems. We must try hard to use suitable measures to solve the population problems in realistic ways the same time as we work on economic development. This is because the development of population has its own corresponding independent pattern, therefore, if we treat this matter with appropriate measures, then population will develop in the direction that has been externally determined and this in turn will act as a positive influence on the economic development in a society thereby bringing into line the development of both population and economy.

Looking at the concrete situation in our society, because of the large population with its fast rate of growth, if we do not take the appropriate measures to control the growth and raise the quality of the population, then the survival of the population cannot be guaranteed and the standards of living cannot be raised either. In addition, the economic development in the society will also be affected since most of the earnings will need to be spent on the increased population, with therefore little capital resources would be available for development. In the past, we have not paid adequate attention to this problem.

Since after the 70's, and especially after the 3rd Plenum of the 11th Party Central Committee, we have begun to focus attention on this problem. We have recognised the belief that population growth must be in line with the economic development in a society, we have also both regulated and rigidly practiced the control of population growth, as well as raising the quality of the population. In having determined planned population as a national policy, we have already attained some results in our work on population. However because of the long-standing practices, the annual growth rate is still between 170 million to 200 million. However, we know that from now on, we must continue to pay close attention to our work in population if we hope to attain greater economic development.

3. We must regard with great importance population planning and we must also consider population planning as a necessary component in our planning of economic development. In a capitalist society, both the material production and the work in manufacturing production are carried on in a state of laissez faire. However, in a socialist society, the people's economy develops in an orderly pattern and therefore requires the realistic planning of material production. At the same time, the orderly planned development in population will also require the realistic planning of population.

In 1881, Engels already commented that, "If we say that are a certain point in the future when a communist state has to regulate both its material and human production, then that state and only in that state can both be achieved without any difficulties." (From THE COMPLETE WORKS OF MARX AND ENGELS, Vol 35, p 146.) This explains that only in a socialist or communist society, where the production resources are regulated under the publicly-owned socialist system, then both the material and population productions can be realistically planned.

For a long time in the past, we had considered the importance of material planning while ignoring population planning, and we had paid great attention to the balance of material production while neglecting the balance between the material and the population in the society. However, according to the concrete proof, if we do not hold onto population planning, as well as the equilibrium in balance between the population and the material side in society, then the balance in material production cannot be achieved either. This is because the balance in material production, such as that in agriculture, the light and heavy industries, as well as the balance between both the production resources and their consumption and between the capital

accumulation and consumption--all these are related very closely to its population's figures, constituents and quality.

In a society, the population is the subject of its production and life. In a socialist society, all the activities are aimed at satisfying the needs of its people, therefore making the people as the masters in their society. Because the economic development in a society must be based on its population planning, population planning therefore should become the be all and end all of the planning of economic development. In another way, in our regulation of the population planning, apart from considering the objective pattern in the population growth, we should also base our goals on the people's economy in order to build population planning on a realistic and sound foundation.

4. We should not only regard with importance the control of population figures, we must also pay great attention to the quality of population. Since our country's founding, with the development in our country of such causes as economy, culture, education, and hygiene, the quality of our population has already been raised. However the new level is quite a way away from the demands that have arisen as a result of our economic development.

For example, in 1982, the illiterate and semi-literate in our country occupied 23.5 percent of our population; and in ten thousand people, those with university education accounted for 60 with high school graduates accounting for only 662. Among the people that were employed, the university graduates numbered only 1 percent, the high school graduates 10.5 percent and the illiterate and semi-literate only 28.3 percent. We should recognise that the total population figures and its rate of growth will influence the economic development in the society, and the quality of the population will also accordingly influence the economy.

In our country, with the development in economy, the advance of technological skill, and the raise in the standards of control of the production technologies and the equipment of production technologies, our country will make higher and higher demands on the quality of the population. If we cannot fulfill the requirements, then the progress of our economic development will be seriously hindered. We must as a result pay great enough attention to this problem, and we must begin from now on to take suitable measures to continue to raise the people's consciousness in communism as well as elevating their standards in culture and science and their technical skills. Only by raising the levels of the people's physical and health states can we guarantee the equilibrium development between the population growth and its economic development.

In order to achieve the modernization of socialism as soon as possible, and to build our country into the socialist country with the highest material and spiritual cultures, the Central Party has determined the goals of our economic strategy, with the aim to double our country's agriculture and industry by the end of the century. At the same time, the goals in the strategy on population were also determined to keep our population under 1.2 billion by the end of the century. The realization of the goals in these two areas will lead to very great changes in the state of our country's economy and it will also help attain an equilibrium in the balance of development between population growth and the economic development.

PROVINCIAL AFFAIRS

NEI MONGGOL ATTACHES IMPORTANCE ON TOWNSHIP ENTERPRISES

SK120944 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 11 Mar 85

[Text] The regional work conference sponsored by the regional CPC Committee and the regional people's government on developing township- and town-run enterprises opened on Tongliao City this morning.

At the conference, Bai Junqing, vice chairman of the regional people's government, delivered a speech in which he pointed out: Township- and town-run enterprises should by no means be regarded as sideline undertakings engaged in by rural and pastoral areas, but as main business undertaken by them. These enterprises are not only indispensable, but also occupy a decisive position in the economy. They not only have a vital bearing on the economic prosperity of rural and pastoral areas, but also directly on the all-round development of the economy.

In summing up and analyzing the development and achievements scored by the region over the past few years in establishing township- and town-run enterprises, Comrade Bai Junqing stated: During the 6-year period since the 3d Plenary of the 11th CPC Central Committee, the region has scored 150-percent increase in its total output value of township- and town-run enterprises over the previous figure. These enterprises are gradually becoming the important pillar in the region's economy.

Comrade Bai Junqing stated: Developing township- and town-run enterprises represents the central link of improving business structures in rural and pastoral areas throughout the region and the important breakthrough of fulfilling the plan of quadrupling annual total industrial and agricultural output value. It also represents an important road along which peasants and herdsmen are able to become wealthy, an important source of increasing the state income, and a strategic measure for building new socialist rural and pastoral areas. Meanwhile, these enterprises will become one of main business in future rural and pastoral areas.

In his speech, Comrade Bai Junqing urged leadership at all levels to achieve new understanding on township- and town-run enterprises and to refrain from setting these enterprises against agriculture and the state-run major enterprises. The leadership should put the program of developing these enterprises

on their important work schedule and should let this program occupy an important position in the economic work of rural areas.

Attending the work conference were leading comrades of the regional party, government, and army organs, including Batubagen, and Alatanaoqier; responsible persons from the regional level departments and bureaus concerned; and representatives of a number of township- and town-run enterprises.

CSO: 4006/462

PROVINCIAL AFFAIRS

SHAANXI REPORTS ALL-ROUND ECONOMIC PROGRESS

HK100315 Xian Shaanxi Provincial Service in Mandarin 2300 GMT 9 Mar 85

[Excerpts] Shaanxi's economic situation is very good. Total industrial and agricultural output value last year reached 21.3 billion yuan, thus fulfilling 1 year ahead of schedule the target set for the Sixth 5-Year Plan and showing a rise of 10.9 percent over 1983.

New developments occurred in the rural economy. Grain output reached 20.4 billion jin, a rise of 5.7 percent compared with 1983. There was an all-round increase in industrial crops. New records were set in output of oil-bearing crops, tobacco, and tea. The province also reaped a bumper cotton crop. Total income of the township enterprises was 2.2 billion yuan, an increase of 30 percent over 1983.

The province achieved sustained and steady growth in industrial output. Total output value was 14.4 billion yuan, an increase of 11.7 percent over 1983. There was more or less synchronous growth in speed and economic results. Heavy industry maintained a relatively high growth rate, while light industry started to rise after a drop. Defense industries developed a good momentum in producing civilian goods.

The province's revenue rose by 130 million yuan over 1983. As a result of importing from abroad and linking up with other parts of China, the province initially created a new situation in opening up to the world. The markets prospered and people's living standards further improved. By year end the province had 74 trading centers and 1,500 trade fair markets. Total volume of retail sales rose by 13.4 percent over 1983.

As a result of the development of production, the income of people in urban and rural areas continued to rise. Average net per-capita income of the peasants rose by 11.2 percent, while average wages of staff and workers increased by 18 percent.

CSO: 4006/462

PROVINCIAL AFFAIRS

XINJIANG MEETING DISCUSSES SITUATION, PROBLEMS

HK110303 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 10 Mar 85

[Excerpts] From 3 to 10 March, the regional government held a meeting of prefectural commissioners, autonomous prefectural governors, mayors, and county governors to discuss how to consolidate and develop the excellent situation in the region, solve the new problems that have emerged in this situation, ensure the smooth progress of all reform work this year, and guarantee the fulfillment of goals of endeavor set by the regional CPC committee and government: to reach the national average level in growth of industrial and agricultural output value this year, and to sextuple this output value by the year 2000.

Ismail Amat, chairman of the regional government, delivered a summation. He pointed out: Last year the economic situation in the region was very good. Total industrial and agricultural output value exceeded 10 billion yuna for the first time, showing a rise of 10.76 percent over 1983, when a large rise was recorded. The region was fulfilled 1 year ahead of schedule the targets set for the Sixth 5-Year Plan.

Ismail Amat stressed: Amid this excellent situation, certain new problems have arisen in the region's economic life. The main ones are: the growth of consumption funds exceeds the growth of production; there has been an increase of money in circulation; fiscal expenditure exceeds revenue; and the township enterprises are developing very slowly.

Ismail Amat said: The most fundamental things in consolidating and developing the excellent situation in the region and solving the new problems and unhealthy trends that have arisen are to continue to implement the principle of opening up to the world and enlivening the domestic economy, carry out active and steady reform of the economic structure, strictly enforce orders and prohibitions, implement the party's and state's policy decrees in a model way, speed up economic development, do a good job of reforms of prices and wages, and score outstanding achievements to greet the 30th anniversary of the establishment of the region.

Ismail Amat pointed out: The emergence of some new problems in the excellent situation is hard to avoid. However, we certainly cannot view them lightly and allow them to develop. We should see that the region's economic

construction has speeded up in recent years and the [word indistinct] capacity of the whole economy has been strengthened; and we must also see that the region's economy remains very weak, and there have still been no major breakthroughs in many fields. We must make still greater efforts. We cannot allow consumption funds to grow too quickly and exceed our economic capacity, which would affect the development of the excellent situation.

We must unswervingly carry out reforms, clear the way to forge ahead, and do our work with caution. We must resolutely control credit funds, investment in fixed assets, and the use of foreign exchange, so as to ensure the smooth progress of reform.

Ismail Amat stressed: At present there are a number of unhealthy trends in society. These are: indiscriminate price hikes; random payment of bonuses and goods in mind; indiscriminate upgrading; and running of businesses by party and government organ cadres, and so on. These do tremendous harm and must be resolutely curbed. Reform cannot make progress unless these unhealthy trends are curbed. Apart from adopting economic, administrative, and legislative measures, we must also lay stress on party discipline. We must grasp reforms on the one hand and party rectification on the other, using the latter to spur the former.

We must seriously take stock of companies and enterprises being run by party and government organs. Government and state work personnel are not allowed to run businesses or act as advisers, directors and so on of companies and other economic entities. Those who are acting in such capacities at present must cease to do so without exception. The industrial and commercial administrative departments must also straighten out and strengthen management over non-government-run enterprises.

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PROVINCIAL AFFAIRS

BEIJING CITY PROGRESSES IN MANY FIELDS

OW100726 Beijing XINHUA in English 0642 GMT 10 Mar 85

[Text] Beijing, 10 Mar (XINHUA)--The reform of economic structure has greatly promoted Beijing's production and work in all fields, according to Vice Mayor Han Boping here today.

Reporting on the on-going Fourth Session of the Municipal People's Congress, Han listed the following as the Chinese capital's major achievements in 1984:

--the city's total industrial and agricultural output value, reached 31.52 billion yuan, up 13.5 percent as against 1983 and registering the biggest increase in the past six years;

--about eight million square meters of housing were completed in the city and its rural towns, an increase of 4.3 percent over 1983;

--the investment in the city's infrastructure construction increased by 80 percent;

--four new overpasses were built and the second subway was opened;

--the total volume of retail sales reached 10.17 billion yuan, 21.6 percent more than the previous year and the biggest increase since 1957. Three thousand three hundred shops run by the collective and individuals were added and 10,000 stalls set up;

--biggest increases in the past six years were reported both in import of foreign techniques and use of foreign funds. It signed 393 contracts with foreign firms, involving 560 million U.S. dollars. The total volume of export goods reached 630 million dollars;

--Beijing received 657,000 overseas tourists, 29.1 percent more than in 1983;

--per capita income of workers and office functionaries reached 1,159 yuan, about 150 yuan more than in 1983.

Han Hoping said that in 1984 reforms were carried out in the fields of construction, commerce and industry, while scientific, educational, cultural, sports and medical departments were exploring new paths for the reforms.

PROVINCIAL AFFAIRS

BRIEFS

PARTY LEADER VISITS TEXTILE COMPANY--On the afternoon of 6 March, Provincial CPC Committee Secretary Li Ziqi visited his liaison point, the Lanzhou woolen textile industry company, to work on the spot, inspect and guide work, and solve problems. Comrade Li Ziqi said: Establishing this company was for the purpose of stimulating development of the woolen textile industry in the province and improving its products. Li Ziqi expressed the hope that the company would score still greater success this year. It should study all kinds of new problems, import new technology, and produce more brand and key products, so as to get business at home and abroad and contribute to invigorating Gansu's economy. [Excerpts] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 9 Mar 85 HK]

CSO: 4006/462

## ECONOMIC DEVELOPMENT ZONES

### THREE MORE COASTAL AREAS OPENED TO OUTSIDE

0W021536 Beijing XINHUA in English 1503 GMT 2 Mar 85

[Text] Beijing, 2 Mar (XINHUA)--The Chinese Government has decided to open three more coastal areas to foreign investment.

The three regions are the Yangtze and Pearl River deltas, and part of southern Fujian Province including the cities of Xiamen, Zhangzhou and Quanzhou.

The decision was announced by Zhang Ge, deputy director of the special economic zones office under the State Council, at a news conference here today.

Answering a question from a foreign news reporter, Zhang said that the decision had been taken by the State Council in February this year.

He added that the government also plans to open the Liaodong and Shandong peninsulas to the outside world at an opportune time in the future, thus eventually forming a continuous belt from Dalian port in the north to Beihai city on the southern coast.

The Yangtze River Delta is the largest of its kind in the country, covering an area of 50,000 square kilometers, and known as a "land of rice, silk and fish." It is also the most thriving industrial and commercial area in China.

The Pearl River Delta, located in Guangdong Province, covers an area of about 11,000 square kilometers. It debouches into the South China Sea, where off-shore oil operations are in full swing, and has close contacts with Hong Kong and Macao.

The part of southern Fujian Province including the cities of Xiamen, Zhangzhou and Quanzhou abounds in harbors and offshore islands, and is a particularly rich agricultural zone.

The State Council sponsored a seminar on the economic development of the three areas here in late January this year. The seminar stressed that outside investment would not only speed up the direct development of the coastal strip, but would also have the effect of spurring the growth of the hinterland areas.

Zhang told the press conference that the overseas investment in the 14 coastal cities opened to the outside world last year was equivalent to the total in the previous 5 years. The investment came in the forms of joint ventures, cooperative enterprises and enterprises involving some foreign investment.

He added that beneficial effects had been felt in the respective hinterland areas. For instance, Dalian and the three provinces in northeast China had decided to start up more than 180 industrial projects in the region.

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ECONOMIC MANAGEMENT

MANAGEMENT MODERNIZATION ADVISORY SYSTEM ESTABLISHED

Taiyuan JISHU JINGJI YU GUANLI YANJIU [THE STUDY OF TECHNO-ECONOMICS AND MANAGEMENT] in Chinese No 3, 20 Sep 84 pp 42-43

[Article by Tao Yun [7118 0336]: "Establish Advisory System To Accelerate Modernization of Management"]

[Text] Modernization of management is a guarantee of socialist modernization and an effective way to improve business management standards and economic results. How can modernization of business management be accelerated? Engaging management specialists as business advisors, linking up factories and schools, using social intellectual forces and improving business management standards are very good methods. The Shanghai Zhengtai Rubber Plant has established close contact with Shanghai Industrial University, engaged specialists as advisors from the Department of Management, changed the appearance of the business, improved management standards and developed production, and since implementing the advisory system in 1984 with the original equipment and technical standards, output for the period from January to May increased 33.6 percent, output value 27 percent, profits 41.8 percent and labor productivity 20.8 percent, costs decreased 1.44 percent and the circulating fund turnover period was reduced by 11.91 days.

What advantages are there in engaging specialists as advisors?

First, it strengthens the knowledge of business management cadres. The management knowledge of cadres in many businesses is now seriously out of date and their intellectual understanding of modern management very poor, they rely on management experience, those who are able to work hard are leaders and scientific management and methods are not used; business management cadres are also occupied with fulfilling production duties and have no time to study or to be released from production to engage in advanced studies, and this seriously affects the strengthening of management knowledge and the improvement of management standards. Engaging advisors, inviting management specialists, and management specialists giving management knowledge creates favorable conditions for improving cadre management standards. After the Shanghai Zhengtai Rubber Plant engaged advisors, it first asked them to teach the study of the scientific knowledge of modern management and everyone from the factory director and the party committee secretary to shop foremen and administrative office cadres participated for half a day every week. Teaching in the factory by specialists

has been able to be integrated with the factory's practice, been favorable to accelerating the improvement of management standards based on the needs of business cadres, enabled the study of management knowledge to be regularized and systematized due to perseverance in forming systems, cultivated a good learning atmosphere among cadres and strengthened their desire to pursue management knowledge.

Second, it carries out modernization of management step by step. Modernization of management generally includes modernization of management ideology, organization, measures and methods. There are many kinds of management methods and measures which cannot reach the goal in one step and hope to be comprehensively popularized within a short period of time but must be carried out step by step. Which should be carried out first and which later also cannot be stereotyped but must be realistically organized one by one according to the factory's specific conditions and problems which urgently need solving. Since business cadres are occupied with work and few are engaged in research, engaged advisors can objectively propose plans and carry out modernization of management step by step for understanding business fact-finding. With the aid of advisors, the Shanghai Rubber Plant first carried out goal management and comprehensive quality control and then established an information feedback system. They had both long-range plans for realizing management goals and specific short-term requirements for carrying out modernization of management. Modernization of management is a development process which requires gradual implementation and improvement and cannot be stressed and then forgotten or relaxed. Some units simply rely on administrative orders to realize modernization of management and cadres feel that there are great pressures, heavy responsibilities and many contradictions.

Third, it accelerates the transformation of the science of management into immediate productive forces. The science of management is an intellectual thing and must enable management knowledge to serve the economy, transform management knowledge into immediate productive forces, promote development of business production and improvement of economic results and undergo a "transformation" process. This first requires a specific study and a profound knowledge of the science of management. The science of management is also a comprehensive science and studying modernization of management is in fact comprehensively using this academic knowledge. Business management cadres can master modern management methods through study, but since they occupy different positions, a lot of the actual specific work which they do in mastering the comprehensive system of the science of management cannot be achieved at once and the process of transforming it into immediate productive forces is a long one. School management specialists are engaged in teaching and carrying on specialized studies and can shorten this process if they combine it with practice. Production in the Zhentai Rubber Plant in the past was sometimes slack and sometimes busy and it was quite difficult to fulfill duties on time. But after advisors came to the plant, they helped to carry out goal management, worked out quarterly and monthly plans vertically and used systematic plans and forms to develop level by level policies and goals throughout the plant horizontally based on annual plans, had clear daily and monthly goals for shops, teams and groups and individuals, formed a multi-level management business goal chain system headed by the factory director and including all staff members and workers, had individuals guarantee teams and

groups, teams and groups guarantee shops and shops guarantee the whole plant integrated with the economic responsibility system and ensured the realization of business goals. Through breaking down indexes such as quantity, quality, cost, safety and ideological and political work, they strengthened management systematicness and ensured the comprehensive improvement of economic results. The modern management methods carried out during the 3-4 months after this plant engaged advisors generally require a year, and they thus accelerated the modernization of management and the improvement of business economic results.

Fourth, it helps cadres to master management techniques. Business management cadres occupy distinct management levels, have distinct management responsibilities and the management knowledge priorities they need to master are also distinct; grade-1 shop cadres must mainly master management techniques and methods which can be mastered quickly and better with the guidance of scientific management ideology. In other words, it is necessary to use scientific methods to do good management work. But management cadres being occupied with general affairs, dealing with "fire-fighting" and managing passively are poor scientific management methods. By engaging advisors and with the help of management specialists, these methods can be mastered more quickly. The Zhengtai Rubber Plant's shop management lacked order and advisors helped them to plan and work out weekly management work procedures and to establish a system of reporting to posts and required that management be operational, standardized, orderly and systematic. Shop cadres must report to their posts each day when they go on duty, and according to stipulated management projects and their standards, go down to teams and groups to investigate the implementation of goals, promptly solve problems as they occur, make analytic studies of shop production conditions and record the work of reporting to posts according to a unified table formula, facilitating spot checks by the factory director. After carrying out the system of reporting to posts, the passive management of shop cadres will become active and their disorder will turn into order, enabling management to become more scientific.

Close cooperation between factories and schools and engaging advisors are new methods and some units have achieved better economic results with them. We should support, develop and improve them. What should be paid attention to when carrying out an advisory system?

1. Enterprises must urgently carry out modern management. It must be understood that doing a good job of modernizing management is the only way for businesses to improve economic results and is also a "shortcut". Along with thorough system reform and the expansion of business initiative, competition between businesses will become sharper and a business must exist, develop, make more contributions to the state, enable its income and that of staff members and workers to increase and improve its economic results through modernizing management. Without these requirements or with them but without urgency, it will be unable to engage advisors and use social intellectual forces.

2. The role of knowledge and intellectuals should be stressed. The role of knowledge in modern production is becoming increasingly important. Knowledge also includes management knowledge and is of major significance in improving

the management standards and methods of business management cadres. Businesses must change from an experience form of management to a scientific one and the most important thing is to stress and master knowledge.

3. Theory must be combined with practice. Advisors must not only have specialized management knowledge but also practical management experience. School management specialists generally engage in teaching work and have rich teaching experience and much theoretical mastery but little understanding of practical knowledge. A lack of management practice can result in certain difficulties for advisory work. School teachers as advisors must first investigate and study, understand conditions, open-mindedly learn from business cadres and combine theory and practice. Facts have proved that all work done in this way has better results, is highly welcomed by businesses, enriches teaching contents and trains a contingent of teachers with both theoretical knowledge and practical experience.

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ECONOMIC MANAGEMENT

**GANSU GOVERNMENT HOLDS MEETING ON ECONOMIC REFORMS**

HK100718 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 6 Mar 85

[Text] The provincial government held its first plenary meeting this year. The meeting lasted 3 days and ended on 6 March in Lanzhou.

The main subject of the meeting was to discuss the problem of how to consolidate and develop the excellent economic situation in the province so as to ensure the smooth progress of reform of the economic structure.

After listening to a report on the achievements made by the province in industrial and agricultural production in 1984, the participants held that there was a continuous, stable, and coordinated development of the province's economy last year and the situation was excellent. Under the excellent situation, however, we must notice the new conditions and problems in economic life and take effective measures to properly solve them so as to further consolidate and develop the excellent situation.

At the meeting the participants discussed the central task of governments at all levels for this year and stressed that it is necessary to carry out pricing reform and wage reform with a responsible approach. Pricing reform must be carried out prudently, and we must strive to win victories in it. The actual living standards of urban and rural residents cannot be downgraded just because of some necessary adjustments in prices. In carrying out the wage reform, it is necessary to link wages and bonuses of staff members and workers with raising the economic efficiency of enterprises, and to link closely the wages of staff and workers with their jobs and achievements so as to further unleash the initiative of the vast number of staff and workers.

The participants of the meeting held that invigorating enterprises, large and medium enterprises owned by whole people in particular, is the central link of the whole reform of the economic structure focusing on the urban economy. Large and medium enterprises must do their utmost to bring their production and business operations into a benign circle, gradually strengthen their abilities to transform and develop themselves, continuously raise efficiency, achieve stable growth, make technological progress, and improve the livelihood of staff and workers.

The meeting stressed that governments at all levels must resolutely implement various regulations formulated by the CPC Central Committee and the State Council on resolutely halting new malpractices.

The meeting pointed out that to enliven the economy and to reform the system, it is all the more necessary to strictly enforce party and administrative discipline, and to resolutely fight against the acts disregarding discipline and against anarchism. At present it is necessary to resolutely correct the most harmful malpractice of failing to enforce orders and prohibitions.

The meeting demanded that leaders at all levels strengthen the work of giving macro-guidance on economic work, clearly know their duties and functions, take up their own responsibilities, strengthen supervision and examination, and firmly grasp measures for carrying out reforms and transformation, for adopting open policies, and for exploitation.

A spring drought has now emerged. All localities must be well prepared to fight the drought and loose no time to properly do spring farmwork. They must do still better this year than last year in growing grass and planting trees. They must arrange and coordinate various work and maintain a stable and continuous growth in industrial production so as to ensure the fulfillment of all plans for this year and to greatly raise economic efficiency.

Provincial CPC Committee Secretary Li Ziqi attended the meeting and delivered a speech.

Provincial Governor Chen Guangyi presided over the meeting and also delivered a speech.

Present were all members of the provincial People's Government, commissioners of all prefectural administrative officers, mayors of all cities, and heads of all autonomous prefectures.

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ECONOMIC MANAGEMENT

JOURNAL ON TRANSFORMATION OF XIZANG ECONOMY

HK080919 Beijing JINGJI YANJIU in Chinese No 1, 20 Jan 85 pp 19-27, 18

[Article by Wang Xiaoqiang [3769 1420 1730] and Bai Nanfeng [4101 0589 7364] of the Agricultural Economic Research Institute of the Chinese Academy of Social Sciences; Lu Xiaofei [4151 1420 7378] of RENMIN RIBAO and Li Dongdong [2621 2639 2639] of JINGJI RIBAO: "Transform the Mechanism of 'Blood Transfusion' of the Xizang Economy Into That of 'Blood Creation'"]

[Text] The Xizang Autonomous Region lies in the south-eastern border area of the motherland, at an average altitude of over 4,000 meters above sea level. The region occupies an area of over 1.2 million square kilometers. It has a population of 1.93 million people, of whom 94.4 percent are comrades of the Zang nationality. After Xizang's peaceful liberation in 1951, the extensive masses of peasants and herdsmen brought to a close their dark serf system, and, with the energetic support of the party Central Committee and the people in the interior, began a large-scale economic construction program, achieving successes which had never been imaginable under the domination of the serf owners. Since the 3d Plenary Session of the 11th CPC Central Committee, the regional party committee promoted and enforced the agriculture and animal husbandry all-round contract responsibility system. This has brought about a great development of the rural economy. However, on account of a series of special factors concerning Xizang's economy, geography, and culture which rendered it unsuitable for the region to copy in total the economic system of the interior, it has been found that under the conditions of the national reform having achieved daily successes, the speed of development of the Xizang economy has fallen behind that of the advanced provinces in the interior of the country.

All along, the party Central Committee has been concerned with Xizang's economic development and social progress. In 1980, Comrade Hu Yaobang visited Xizang to make a survey of the region. He pointed out the direction of work of the region, and advocated the important viewpoint that Xizang cannot copy in a wholesale manner the system in the interior of the country. In April, 1984, the central government called a Xizang work conference. It subsequently formulated Document No 6 which carried concrete policy regulations on work in Xizang. In August, Comrades Hu Qili and Tian Jiyun visited Xizang to make an extensive investigation and research. They clearly advocated that Xizang should enforce an autonomous economic operation system, opening to the

outside and internally carrying out reform. They also gave a series of concrete pointers on how to carry out Document No 6 of the central government.

In order to study the problem of the reform of the Xizang economic structure, recently, with the vigorous support and cooperation of the party committee of the Xizang Autonomous Region, we spent over 3 months on the investigation and research of the relevant problems. We now offer certain viewpoints formed from the investigation work for discussion with our comrades.

## I. An Analysis of the Current Condition of the Operation of the Economic System

### 1. An economic system which cannot operate autonomously.

In 1983, the gross value of the industrial and agricultural output of the Xizang Autonomous Region was 703.09 million yuan and financial subsidies from the central government amounted to 686.55 million yuan, equivalent to 97.7 percent of the gross value of output. In other words, while the per capita output value was 364 yuan, the per capita financial subsidy from the central government amounted to 357 yuan. From 1952 to 1983, the cumulative financial subsidies from the central government amounted to 7.088 billion yuan. As a matter of fact, this statement of the operation of the Xizang economy being indivisible from financial subsidies from the central government has been a daily growing trend. The ratios of the central government's financial subsidies to Xizang's gross output value through the years were as follows: during the 1950's, 30.55 percent; the 1960's, 45.49 percent; the 1970's, 80.46 percent and in the 1980's, 97.07 percent. Over a period of 31 years, the gross value of industrial and agriculture output increased by 400 percent but the increase in the financial subsidies from the central government was 6,500 percent. An economic development of this kind was obviously abnormal.

The fundamental reason for the above-mentioned phenomenon was that the monies of the financial support from the central government had not been transformed into the forces of production of Xizang's commodities. The business volume of Xizang's state-run commercial system (including that of "collective" units) accounts for by far the largest portion of the volume of commodity circulation within the region but from 1955 to 1983, the gross volume of the net purchases made within the region by state-run commerce was only 6.32 percent of the gross output value of industry and agriculture and even in 1983 it was only 10.01 percent. Thus, nearly 90 percent consisted of self-sufficient production and commodity consumption within the region was nearly wholly dependent on shipments or imports from the inland. In 1983, the inward shipment of commodities made by the state-run commercial departments amounted to 430 million yuan, being 95.34 percent of the total sales volume within the region and equivalent to 96.16 percent of the gross retail sales of the social structure, accounting for 62 percent of the financial subsidies from the central government during that year. This was literally spending money bestowed by the central government on buying back goods from the inland for consumption purposes. How could it be possible for such a mechanism of "spending money" to promote the economic development of the locality?

## 2. Consequences of copying in total the inland system.

Before liberation, Xizang had almost no industry to speak of. During the initial period of liberation, Xizang was still in the stage of spontaneous market regulation but following the increase in the state's capital construction projects, and the corresponding increases in the "gross value of industrial output," the income of the enterprises (including those engaged in commerce and transportation) likewise went up, amounting to as much as 6.142 million yuan in 1960. During the 1960's, Xizang carried out democratic reform, and was triumphant politically. But, because of the lack of experience, its economic structure simply copied the inland system of low wages and low commodity prices--of "everybody eating from the same big pot"--as a result of which the income of the enterprises dropped drastically and their operation results dropped from their former state of normality to subsequent losses. From 1963 to 1983, the average annual growth rate of its gross industrial output value was 10.33 percent, but the losses of its enterprises increased at an annual growth rate of 12.77 percent. In 1983, its enterprises incurred losses of 76.78 million yuan, being 58.91 percent of the gross industrial output value of 130.339 million yuan.

Xizang's industry has practically no commodities fit for marketing. In 1983, the amount of state purchases of industrial products was only 12.32 million yuan, being only 9.45 percent of the gross industrial output value. The growth in the gross output value of industry has basically depended on support from the capital construction projects. Moreover, accompanying the increase in capital construction investments, the losses incurred by the enterprises also sharply increased each year. Thus, from 1963 to 1985, while the average annual increase in capital construction investments was 7.07 percent, the average annual increase in the losses of the enterprises was 12.77 percent. From 1952 to 1983, on an annual average, each yuan of capital construction investment made was literally exchanged for a loss of 0.42 yuan incurred by the enterprises.

There is nothing wrong in the state providing funds for support. The crux of the problem lies in the fact that, despite its lack of an "economic foundation," it was crowned with an "upper structure" just as intricate and complicated as that in the country's inland. This can be clearly seen from the increases in the administrative and management expenses and in the "economic results." Thus, in 1983, the administrative and management expenses of the whole region increased by more than 1,000 percent over 1952: computed in terms of the number of management personnel, the average per capita outlay in 1965 was 1,274 yuan, in 1978, 2,216 yuan and in 1983, 2,800 yuan. The increases in the size of the system's management personnel and in the amount of expenses have brought about increasingly adverse effects on the economic development of the region. From 1952 to 1960, each yuan of administrative and management expenses obtained a corresponding profit of 0.45 yuan on the part of the enterprises; but, from 1961 to 1970, it derived an enterprises' loss of 0.55 yuan; from 1971 to 1979, the loss was 1.01 yuan and in the 1980's, a loss of 1.26 yuan.

Funds and material resources put in by the central authorities, following spending by a "superstructure" which has grown increasingly ponderous in size,

were immediately converted into a set of deficit accounts--this has been the operation mechanism of the prolonged slow development of the Xizang economy. Here, we shall cite two minor instances.

The coupons of the regional petroleum company are convertible each year, and become invalid upon expiry. The various oil-using units, after purchasing the coupons and distributing them among their constituents, no longer bothered with the matter, or with how many coupons had been used. They even failed to redeem or convert the coupons upon expiry. In the 20 years since its establishment the regional petroleum company was found in its accounts unredeemed coupons amounting to 9.37 million yuan. How lavishly the various units have been spending state funds can thus be seen from this instance.

Being broad-minded on one side is always countered by being narrow-minded on the other. In 1981, Yadong County imported 834 thermos bottles, but on opening the packages, it was found that 120 of the bottles were broken. Upon careful investigation, it was disclosed that in Lhasa these bottles had already been in a broken state. It was indeed ironical that although these bottles had already been broken and despite the stringent condition in transport, the broken bottles should have been dispatched to a consignee some 85 kilometers away! Obviously, the purpose of the consigning unit was to avoid entering the loss of 1,142 yuan into its books.

The ponderous system of "everybody eating from the same big pot" has hindered Xizang's economic development. Despite continuous help and support from the central government, in 1983, in the whole region 19.36 percent of the production teams and 19.03 percent of the rural residents were still receiving a per capita annual income of below 100 yuan, and could hardly dress warmly or eat well. During the years 1952 to 1983, social relief funds principally used on the rural villages increased rapidly at an average annual rate of 30 percent. Even if the whole of the financial revenues of the region amounting to 16.9 million yuan in 1983 had been devoted to these relief purposes, the sum would still have been deficient by 1.63 million yuan.

### 3. Can priority given to construction of the foundation structure bring about a turn-round in the situation of the Xizang economy?

Some people believe that the problem of the Xizang economy is that the subsidies from the central government have not been spent on speeding up construction of the basic structures such as education, communications, water supply, electric power, and so forth. In our opinion, regarding the problem of the direction of investment, there are indeed many experiences and lessons worthy of study and research. But, seen from the statistical figures, the largest portions of Xizang's financial expenditures have all along been devoted to the departments taking charge of education, science and culture, agriculture, communications and energy. Simply speeding up construction of the fundamental structures not only suffers from the restrictions of objective conditions but also, because of its failure to solve the basic problem of the system, is unable to bring about a turn-round in the situation of a continuing downward trend of the whole economic system. Take for example highway construction. Xizang's highway density is only 17 percent of the average level of the whole

country. Sub-standard roads constitute 69 percent of its existing highway system and 37 percent of its people's communes are not accessible to highway traffic. In 1983, highway investment amounted to 40 million yuan, being over 50 percent of the total capital construction investments. If the objective is to have the simple highways of all the counties and districts open to traffic, then, even on the basis of investing 90 million yuan a year as in 1984, it would still take some 22 years. The national average of highway maintenance expenses is 5,000 yuan per kilometre. In Xizang, under the conditions of a financial subsidy from the state, the average is 2,000 yuan per kilometre. This can hardly be sufficient to keep the existing highways simply open to traffic. The shortage in technical personnel is also an aggravating problem. At present, in Xizang the ratio of highway technical personnel to labor power engaged in construction is only 0.2 percent. The highway maintenance office has barely one technician for every 100 kilometres of highways and the communications bureau of the Ali district does not have one single technician for the over 4,000 kilometres of highways under its supervision. Apart from the objective factors of funds, time, and personnel, the most important point is the serious adverse effects of the system of "everybody eating from the same big pot" on speeding up construction of the basic structures. According to information materials supplied by the regional construction bank, from 1965 to 1968, of the 72.37 million yuan of investment on construction of the "three lines," 23 million yuan were reported as having been spent for nothing. In the 1970's an investment of 4.78 million yuan was made on developing the Xiangyang colliery, but on completion of the construction work no coal could be excavated, resulting in a "coalmine having to burn animal dung" as fuel. The 3.016 million yuan investment on construction of the Changdu Jinhe hydropower station was a total loss. Construction of the Me Tuo Highway began in 1983 but the investment of 24.38 million yuan was found to have been wasted.

The above constituted some of the visible losses, but there were invisible losses as well. In 1982, under the regional communications department, the highway bureau's housing section undertook four construction projects. On one occasion, it reported false expenditures and fraudulently took away state investments amounting to 1.01 million yuan. In 1981, the autonomous region allocated a sum of 50,000 yuan to the education bureau of Ri Kaze district as repairs and maintenance expenses for the school desks and chairs. At the time of a financial inspection in 1983, it was found that there was a balance of only 37.16 yuan. No accounts had been kept of this special fund to 500,000 yuan. The money had all been spent but there was no way of knowing how it had been spent.

Due to the accumulation of over 30 years of lessons on the increasingly deteriorating state of investment results and confronting the reality of steady increases in state subsidies and enterprise losses, we have no reason to believe that investment in any one profit-making industry or trade can readily bring about a turn-round in the malignant cycle of the whole economic structure. We can only make a firm determination to enforce the reform of the economic structure, since only in this way can the Xizang economy basically turn for the better.

4. The target is to establish an autonomous operation mechanism of commodity economy.

According to current conditions, the central government's aid in finance and in material resources to the Xizang economy cannot be stopped for a single day. Nevertheless, we must readjust the reaction of the economic structure to aid from the outside. We cannot allow a situation where "the more blood is transfused the more serious is the anaemia." It is necessary that by means of blood transfusion we built up a "blood creation mechanism" for the Xizang economy itself, that is to say, we must build up the functions of commodity production. After more than 30 years of aid from the state, Xizang is not devoid of the capacity to develop commodity economy. Rather, its system in the past has not formed a mechanism for developing commodity economy and man to man, enterprise to enterprise, and producer to consumer, the relations of commodity exchange at equal value are lacking. The same level of wealth can imply the wealth of commodity economy, or the wealth of natural economy, or wealth from dependence on aid from the central authorities. At present, among the herdsmen in northern Xizang, there are instances of a single household consuming 500 to 600 jin of butter a year. This means that computered according to current market prices it indicates a per capita income of over 500 yuan. This represents wealth in one sense, but this type of wealth of the natural economy has no future. The target we are pursuing in Xizang, particularly the target for the recent period, should first, not be an absolute level in the degree of wealth of the size of the per capita output value or income. Rather, it should be, by means of the reform, the emergence from readjustment of commodity exchange relations on a social scale. So far as developing the Xizang economy is concerned, reform occupies the first place. Funds and materials from the state should first be used on the reform.

II. The Necessity and Feasibility of Thoroughgoing Reforms.

1. It is necessary to proceed first with the reform of the state-run (including semi state-run or collective) structure.

It is possible that reform of the Xizang economic system could take the same road as that in the inland, of promoting reform in the cities and towns through enlivening the commodity economy in the countryside? Theoretically speaking, this is possible but it is feared that in actual operation the progress will be much slower than in any other province in the inland.

First, in the countryside the commodity rate is low. An optimistic estimate of the commodity rate in the Xizang countryside in 1983 is below 15 percent. Under conditions where the populace still cannot dress warmly and eat their fill, and after the enlivening of the countryside the best situation that can be attained is that this estimated 15 percent production can react to the market mechanism. Moreover, under the condition of an extremely great flexibility in the ratio between consumption of a self-providing nature and the selling of commodities on the part of the peasants and herdsmen, the commodity rate of the agricultural and sideline products is not only influenced by the prices but is also related to the "cost of marketing" and to whether or not the exchange for industrial products is suited to their taste. The points or units in Xizang's commercial network average 1.02 points, or units, per 1,000 people

while the number of commercial personnel averages 0.48 persons per 100 people, being respectively one-third and one-half of the average level for the country as a whole. As for the average coverage area of each station and each person in the commercial network, the average levels of the whole country are respectively 3 square kilometres and 1 square kilometre while in Xizang they are respectively 610 square kilometers and 130 square kilometres, or respectively 19,400 percent and 13,600 percent of those of the whole country. In the relatively advanced Tikaze district, 53.13 percent of the people's communes still do not have any commercial network unit in operation. Under the exchange conditions of having to travel a long distance, poor highway conditions, poor attitude of the bureaucrat merchants, and lack of marketable commodities, even though the peasants and herdsmen have done well in production, it would still be difficult to improve the commodity rate and the sphere of regulation by the law of value would be rather limited.

Second, it is difficult for the peasants and herdsmen to engage in business. At present, state-run commerce has grasped in its hands the sources of goods and the transportation channels, while rural commerce lacks funds, technology, and means of transportation. Moreover, under the conditions of poor communication facilities, the local people not being conversant with the Hang language, and the sources of goods being mainly in the inland, the peasants and herdsmen wishing to extend the scope of their exchange operations and handle larger amounts of commodity exchanges are bound to meet with a series of unsurmountable difficulties.

Third, the most important factor is the poor standard of the business operations of the peasants and herdsmen. Jiangmu is one of the major counties in education of the whole region, but the index of the education level of the whole rural population there is only 0.15, lower by 86.36 percent than the index for the whole country. Thus, the peasants and herdsmen have a low cultural level. They lack the capacity to absorb advanced technology and are highly imbued with a character of laziness inherent in a natural economy of self-provision and self-sufficiency.

The above three special features, with the addition of little flexibility of the demand for agricultural and animal husbandry products, the long production period required, and the original and fixed special feature of the products' relatively slow reaction to the price signal in comparison with industrial products, have made it practically impossible in the near future for the development of a commodity economy, which can promote reforms in the cities and towns, in Xizang's countryside which, after all, has no rural or village enterprises to speak of but has been dependent solely on the responsibility system for agriculture and animal husbandry and on enlivening of the policy of state purchases of agriculture and animal husbandry products. Theoretically speaking, after the self-providing and self-sufficient peasants and herdsmen have eaten their fill, they have surplus products for sale and commodity economy can naturally develop. But, precisely as was the case in ancient China when despite a high degree of thriving natural economy there was still no transformation into the commodity economy, and in view of the lack of the modern socio-economic factors, we cannot dismiss the possibility of the natural economy standing still (possibly a standstill of a wealthy nature) for a long-time to come. This possibility is a big one particularly with reference to the Xizang countryside with its state-run system extensively permitting

"everybody eating from the same big pot." At present, Tibet seriously lacks the organizational structures at the grassroots level, and over 50 percent of the structures are at the county level. People with even a little culture have all been absorbed into the state-run system which is still in need of more personnel. Under such conditions, it would be empty talk to think of allowing the personnel to retain their employment status, to stop their salary payment, and to contract for the operation of business activities. If this situation is continued, a malignant cycle will result: the more people are employed by the state-run system which permits, on a large scale, "everybody eating from the same big pot," the more financial subsidies will have to come from the state, the less talented people will remain in the countryside, and the greater will be the difficulty of developing commodity economy. If this state of the flow of talented people is not stopped, then, despite any further enlivening of the rural policy, it will still be difficult to speedily develop commodity production. Therefore, it is our belief that in Xizang, we should proceed first with reform of the state-run structure and that the reform must be carried out categorically and thoroughly.

## 2. Location of the potential for developing commodity economy.

The state-run system in the cities and towns is where the potential for the development of Xizang's commodity economy lies.

First, people there are better qualified for business undertakings than people in the countryside. Although people in the cities and towns in Jiangmu County have received a lower education level than people in the country as a whole, their educational level is 640 percent that of the rural people. In comparison with the rural residents, they have more knowledge, a wider vision, and are more able to adapt to new developments.

Second, they can react more sensitively to commodity information and price signals than the rural people. In the cities and towns, the per capita commodity consumption is 3,600 percent that of the rural residents.

Third, the equipment, technology and funds for modern commodity production are concentrated in the cities and towns and in the state-run system, there being almost none of them in the countryside.

Fourth, participation in market activities is much easier. Residents in the cities and towns can speak the Xizang and Han languages. They have many contacts with the inland; a fairly large portion are themselves employees of state-run industrial, commercial, and transportation departments.

This portion of people and goods are representatives of Xizang advanced productive forces, being also the main hidden strength for developing commodity economy and the main force at present responsible for spending the financial subsidies from the central authorities. Hence, promoting the overall and thorough reform of the state-run system is a powerful lever to transform the situation of "the more blood-transfusion the more serious becomes the anaemia" and to set in motion the "blood creation mechanism" of the Xizang economy.

3. The reform can produce advantageous conditions for achieving a breakthrough in development.

First, lax relations now exist between prices and finance.

Xizang's industrial output value principally depends on support from the capital construction projects. The commodity rate of its industrial products is low. Apart from a small number of factories such as the Lin Zhi Woolen Textile Factory and others, there are no light industries such as the rolled tobacco, liquor, and tea leaf industries whose products command a relatively large price differential. Aside from a small number of products such as wool and other things which at present are still not open to the public, the liaison between industry and the countryside is a loose one. In the field of finance, not only are there no accumulations derived from the rural villages from the differences in prices but also, as a whole, providing subsidies to the countryside is a necessity. Not only does loosening price control and enforcing interchange between the urban and rural areas not produce any ill effects on Xizang's finance, which no longer enforces the system of state purchases of grain and edible oils, but they are also definitely advantageous. Eighty percent of Xizang's industrial articles of everyday use and construction materials are shipped from the inland. In the commerce system of the autonomous region, there are very few products selling at inverted prices. At present, the central authorities are giving preferential treatment to Xizang's requirements and needs. Basically speaking, Xizang gets whatever it asks for. In Xizang's markets there are hardly any consumer goods which are in really urgent demand. Hence, when control of Xizang's prices is gradually loosened, the scale of price fluctuations and the duration of the fluctuations will be basically determined by the stock composition in the warehouses of the commercial departments and the speed of response to the inward shipment of goods. If reform of commerce and of transportation is carried out at the same time, a sustained rise in commodity prices will not appear.

Second, laxity in administrative control.

At present, grain production in Xizang's countryside is exempted from any form of state levy or purchase. Control of agricultural and sideline products has basically been loosened. Moreover, price control in Xizang has long been rather lax. In the whole region, there are only 66 employees taking charge of commodity price control work. Apart from the autonomous region setting up a commodity price control office, there is no other control organ on commodity prices. Of the 74 county-level units, only 7 counties have one persons each in charge of the work on price control. To a certain extent, the various departmental units fix the prices on their own initiative. The material resources bureau of Rikaze district fixed the price of cement at 882.98 yuan a ton, being 182.1 percent of the price fixed by the state. Not long ago, the supply and marketing cooperative of Jilong County put rubber shoes on sale. When it was found that buyers had already lined up at the entrance of the operative, it immediately raised the price by 0.50 yuan a pair. Many supply and marketing cooperatives, not having met with or handled a commodity before, would simply sell it at an "average price" (estimated price). In reality, a considerable part of price fixing is spontaneous.

Xizang has an exceedingly small number of enterprise units at grassroots level. In many localities, less than one-half of the normal number of government organs have been established or are in operation. After the enforcement of the production responsibility system in the countryside, with the exception of the tasks of financial distribution and paying out of relief funds, there are practically no other economic control functions to speak of. The structure of the various enterprise units is not in a health state. The units do not contact each other in their daily activities. Their economic relations with each other are extremely loose, far from the closely-knit types in the inland. Hence, in gradually loosening the control over prices, the after effects will likely take a long time to appear, contrary to the proverbial saying that by pulling one hair, the whole body is affected.

Third, financial and material support from the state.

The 1985 state budget stipulates that the central authorities will give a subsidy of 230 million yuan to Xizang's enterprises to cover their operating losses and make capital investments in the region amounting to 300 million yuan. The plateau subsidy to staff members and workers alone will amount to 44.04 million yuan. If all these monies are expended in a business-like manner, they should be more than sufficient to take care of the reforms in the cities and towns each of which has a population of not exceeding 280,000 people.

In short, we believe that the fundamental cause of the Xizang economy still being in difficulties lies in the system of "everybody eating from the same big pot" in the state-run organs: the direct motive force in developing commodity economy in Xizang is to strengthen the vitality of the state-run structure; Xizang's state-run structure must be reformed but many advantageous conditions are available for the reform. It is entirely feasible to be firmly determined to carry out the reform on a rather large scale.

### III. Analysis and Tentative Ideas on Reform of the Structure

Grain, commerce, transportation and currency constitute the key departments for Xizang to break through the bondage of the natural economy, institute commodity exchange and develop commodity production. At the same time, they account for the largest portion of the existing losses (the first three account for 80 percent of the losses incurred by the enterprises) and should be given priority consideration in the reform. In addition, since there are no really large enterprises in Xizang, the medium-sized and small enterprises may come under the state's regulations on contracting, hiring, and leasing. The targets of the reform can thus be simplified.

#### 1. Solution of the grain problem and the tentative idea for reform.

Xizang has a population of 1.93 million people. Not counting the yearly average of 32.57 million jin of resold grain in the 1980's, commodity grain in the pastoral areas and cities and towns supplies the needs of 39.4 percent of the population. Thus, the operating functions of the grain department play an exceedingly important role in Xizang's economic and social stability.

Through the years, the losses suffered by the grain departments in the sale of each jin of grain have been as follows: in the 1960's, 0.045 yuan; the 1970's, 0.069 yuan; and the 1980's, 0.173 yuan; in other words, the larger the volume of sales, the larger are the losses as a whole and the larger are the losses incurred by the units.

What is the solution to the grain problem? We cannot simply refute the slogan of "self-sufficiency in grain." Xizang is currently facing the problem: if it cannot provide itself with grain, who will?

First, the central government will. But providing grain means that money and funds must also be provided. The increasing losses suffered in grain operation are directly related to the increasing amounts of inwardly transported grain. From 1959 to 1983, the yearly increase in the inward transfer of grain was 12.34 percent, and the yearly increase in the losses of the enterprises was 15.74 percent. In 1983, the losses incurred in grain import from the inland averaged 0.28 yuan per jin. Importing more than 200 million jin of grain meant losses amounting to 61.05 million yuan. Just the wear and tear in transit alone was as high as 7.8 percent. Following the expansion in the scale of capital construction, the demand for commodity grain has sharply increased each year, and there has also been a sharp increase in the allocation of grain from the central authorities. This road can hardly be continued for long. Not counting the enormous amount of financial losses, the transport capacity also poses a problem. In 1983, the region was able to move in 193,200 tons of material resources. Moving in 200 million jin of grain occupied over 50 percent of the transport capacity. Therefore, depending on moving grain from the inland cannot basically solve the problem.

Second, on-the-spot procurement and purchases. As seen from the local output of grain, 1980 to 1983 were 4 years of poor harvests, averaging an annual output of over 900 million jin. The per capita distribution level can be depressed to 600 jin. This will yield a surplus of 200 million jin of commodity grain for marketing purposes. This can basically meet the fixed demand for commodity grain for the population in Xizang's existing cities and towns and pastoral areas. As for the grain prices, our survey of some 20 market places disclosed an average price of 0.48 yuan per jin which is lower than the average cost price of 0.49 to 0.53 yuan per jin of grain move in from the inland. If it is possible to realize on-the-spot procurement and purchases at 0.48 yuan per jin, then without changing the sales price and, computed on the basis of the 1983 sales volume, the losses can be reduced by 14 million yuan. Moreover, the fluctuating range in regional differences and seasonal differences in local grain prices is around 160 percent and if a good job is done, the cost of procurement and purchases can be further reduced. The problem is that this requires an exceedingly high degree of work enthusiasm on the part of the grain departments and this, basically speaking, is sadly lacking under the current system of reimbursement for what one has actually spent.

Third, expansion of import. In importing grain from neighboring countries like Nepal and others, we have nothing to lose. At the same time, this can save a large amount of transport power for importing from the inland materials needed by Xizang. Besides, Xizang has plentiful resources of lake salt.

In the past it traditionally traded with Nepal upward to 10 million jin of lake salt a year for grain. Unfortunately, in the 1960's, this salt-grain trade was halted. It appears now that the resumption and further development of this traditional salt-grain trade would have a good future.

Summing up the above, we believe that we should formulate the long-term guideline of taking on-the-spot purchase of grain as the chief factor and moving in grain from the inland and expanding the import of grain from other countries as the supplementary factors. There are three reasons for this. First, even assuming the availability of transport capacity and the absence of losses, moving in grain from the inland would still not be advisable. Grain transport involves an excessive production cost. Importing grain mainly for eating purposes takes away the capacity of importing more valuable commodities for developing the commodity economy, or for transforming backward production methods, or developing the local resources and continuously promoting the manufacture of commodities which accrue in value. Second, improvement in the standard of living of the people of Xizang is indivisible from the development of animal husbandry. But, taking a long-range view, in modern animal husbandry, it cannot be imagined that animals will forever depend solely on grass as their feed. On the other hand, bringing in a large quantity of grain for sale at a cheap price can only play a passive role of restricting a marked increase in local grain production. Third, on-the-spot purchases can raise the commodity rate in the local countryside, stimulate exchanges, and promote the transformation of natural economy into commodity economy.

However, the enforcement of this guideline requires that the grain department must undergo a thoroughgoing reform. In making a supposition for the reform, we may consider, as a first step, that there will be no increase in the inward shipment of 300 million jin of grain by the central authorities and the ceiling of the subsidy will be fixed at 84 million yuan. There will be contracting at successful levels for the corresponding loss subsidy on handling the quantity of the inward grain under target, based on the fixed quantity of supply of commodity grain; grain enterprises below the county level will submit tenders for the contracting; but they may import the grain, or make on-the-spot purchases or cross-district purchases and may also seek inward grain at the cost price. They may retain any profits after offsetting losses. Demands for newly increased commodity grain of the social structure will pay the market prices and if the purchase price is high the sales price will likewise be high. Distribution of relief grain will not be accompanied by payment of relief funds and the distribution will be directly taken care of by the civil administration departments. By so doing, it will be possible, on the prerequisite of not increasing the deficits, to enable the grain enterprise units to adopt various measures to purchase grain at a price cheaper than the cost price of inwardly transferred grain. But the defects are: First, under the conditions of serious shortage of government organs in the localities, it is not possible to enforce a ceiling price for subsidies; second, the current situation of inverted prices for purchases and sales and loss subsidy are being retained; the inward movement of 300 million jin of grain a year actually occupies 78 percent of Xizang's entire transport capacity and such a transportation situation is decidedly irrational; and third, the loss subsidy provides

a backing for strengthening the position of monopoly of the existing train departments and discourages the emergence of civilian grain merchants. Therefore, after enforcing the first stage of the reform, we still need to think of the next step. It may now be suggested that there will be no change in the character of the regional-grade bureau whose main function will continue to be taking charge of the inward transport of grain. The inwardly transferred grain will be dispatched by wholesale and at the market supply-and-demand prices to grain units in various localities.

Grain enterprise units below the district level will submit tenders for the contracting jobs. The purchase and sales prices of grain will follow the market prices, high purchase prices will be matched by high sales prices, the handling units will assume sole responsibility for their own profits or losses, the subsidy on grain prices will be abolished and there will be no subordinate relationship between the grain units. For the region as a whole, the large or small amount of the grain moved in from the inland and the size of the grain reserves can directly stabilize the market prices of grain, thus preventing the proverbial saying that "low grain prices hurt the peasants and high grain prices hurt the workers" and helping to maintain a macroscopic control. By so doing, the above-mentioned contradictions can be settled. However, since this is related to the welfare of the urban residents and the herdsmen, it is still necessary to study it comprehensively along with the reform of the relevant departments.

## 2. Current condition of the commercial departments and a tentative idea for their reform.

At present, of the gross volume of retail sales of commodities in the whole region, around 90 percent is accounted for by the retail sales and wholesales handled by state-run organs. Judging from the above analysis on the prospects of the development of commodity exchange in the countryside, it can be seen that in the foreseeable future this position of state-run commerce can hardly be challenged.

In 1983, the state-run commercial organs (not including the grain organs departments) incurred losses amounting to 9.55 million yuan. It appears that the irreversible trend is that the larger the business operations the greater are the losses incurred. For the commercial system as a whole, the profit on each 100-yuan of sales is -0.49 yuan and the annual turn-around rate of circulating funds is only 0.64 times. In 1983, the stockpiling of commodities was as high as 2,400 percent of the self-owned funds. Of all the stocks in the warehouses, nearly 30 percent consisted of dull and unmarketable goods. One of the causes for the large volume of stockpiling is the acute lack of transport capacity, and conversely, one of the reasons for the acute transport capacity situation is the large volume of stockpiling. The whole region has a population of only 1.93 million people but in 1982 a single inward shipment of national earthenwares consisted of 4 million pieces and at present there are nearly 5 million pieces of earthenwares stored in the warehouses. If this kind of operating condition is not rectified, developing and boosting Xizang's commodity economy will only be empty talk!

In making a supposition for the reform, we may consider that, with the exception of the special commodities the prices of which, if loosened from control, would show a sustained rise and thus would adversely affect the basic production activities and the livelihood of the populace, control of the prices of other commodities will be loosened and prices will be floated. Since the grassroots-level units cannot readily grasp the purchase channels in the inland, the regional bureau of commerce and its subordinate specialized companies should temporarily remain intact but their functions should be mainly confined to wholesaling. As for commercial enterprises below the county level, their establishment may be by means of tenders for contracting, renting and leasing and they must themselves be responsible for profits and losses. The special commodities mentioned above will be handled by special supply stores organized by the state. As a transitional measure, in the beginning, the sphere of operation of the special supply stores may be slightly extended. Following the commercial enterprise units below the county level no longer bearing any obligation for the losses of the regional-grade commerce, at least the frequent transporting of large quantities of stockpiled goods inside the region can be reduced and, at the same time, a rapid development of the exchange activities among the populace can be promoted. However, this still cannot completely prevent losses resulting from commerce at the regional level blindly making a large-scale entry of goods. In particular, it cannot solve the large-scale wastage of the so-called "commodities with a bearing on the national economy and the livelihood of the people." (For example, petroleum occupies a most important place, but there has been most serious waste of this commodity. Due to large quantities of diesel oil, gasoline, and lubricating oil changing hands from the state-run organs to private individuals, at present the market price of oil is cheaper than that of oil supplied by the oil companies and a "sellers' market" has literally appeared in this commodity oil which ordinarily should have been acutely in demand.) If the special supply stores are to supply goods in acute demand and other enterprises are to refrain from dealing in them, then the chances are that a situation of buying up of the commodities may appear and the consumers will be denied any benefits of the selling prices being lower than the purchase prices. Hence, the consideration for the second step should be that accompanying the changes in the supply conditions of the market the operation scope of the special supply stores should be gradually reduced; the link between the regional specialized companies and the special supply stores should be gradually cut off and units buying goods and engaging in wholesaling of goods should operate like regular business enterprises. Following this, we should gradually approach the target such that, with the exception of an extremely small number of strategic goods, the special supply stores will be gradually eliminated and that the whole commercial system will operate as regular business undertakings, with the government being responsible for only administrative control and no longer taking part in business activities.

### 3. Current condition of the transportation departments and the tentative idea for reform.

At present, nearly 100 percent of the transport capacity of the whole region is in the hands of state-run organs. Xizang is the only province or region in the whole country which has no railways but depends wholly on highway transport.

It is also the only province in the whole country in which the highway transport enterprises habitually suffer losses. Over the past 30 years, on the average, transporting one ton of goods incurred a loss of 46.84 yuan. In 1983, the total loss incurred amounted to 24.82 million yuan. It appears that the more goods that are transported and the longer the transport distance, the heavier are the losses.

The enormous losses incurred in transport are related to such objective factors as the irrational transport charges, shortage of oxygen in the plateau, poor condition of the highways, and so on, but the main factor still lies in the poor quality of the operational work. Seen from the reports of the two transport companies directly subordinate to the regional communications department, the features of Xizang's state-run transport are "one high and three low's": (1) High operating cost; in 1983, the transport cost of gasoline vehicles per 1,000 ton-kilometre was 175 percent of the national average, while the unit oil consumption rate of diesel and gasoline vehicles was 150 percent of the national average. (2) Low operating rate of vehicles, being only 40 percent in 1983, or 56 percent of the national average level. (3) Low roadworthiness rate of vehicles; in 1983, it was only 60.3 percent, being 69 percent of the national average. (4) Low annual transport volume of vehicles; in 1983, the transport volume of a prime mover and trailer unit was 26,155 ton-kilometres, being 67 percent of the national average level. If this state of Xizang's transport departments being completely devoid of operating enthusiasm apart from attending to routine administrative matters concerning the vehicles is not rectified, then it would be useless to talk about reform of the grain and commercial departments. However, is it true that motor vehicular transport in Xizang is necessarily a losing proposition? The facts show that this is not so. Certain specialized households engaged in motor vehicular transport in the countryside, charging essentially the same transport rates as those of state-run transport units, have been making large profits. This is a good indication of the real situation.

Like grain and commerce, the primary problem of Xizang's transport is not concerned with expanding the size of the personnel, or expanding the transport network and stations, or expanding operations generally. But reform of the transport department is a must. It must precede reforms in other departments. The tentative idea for the reform is: First, we may consider retaining the backbone units, leaving the remaining vehicles and transport enterprises available for purposes of contracting for rent, lease, and operation, floating the transport charges, and making the units assume sole responsibility for their own profits or losses. In 1983, the transport capacity of the autonomous region moved in 193,200 tons of materials (not including transport by the oil pipeline). Of this, the two companies directly subordinate to the regional communications department and the communications bureaus of the districts, municipalities, and towns accounted for 91 percent. The number of operating freight vehicles owned by these two companies and the districts, municipalities, and towns made up 31 percent of the total number of freight vehicles of the region. Retaining this 31 percent of the freight vehicles will ensure 91 percent of the transport of goods into Xizang. If we allow the remaining 70 percent of the freight vehicles to be contracted out for rent or lease, the transport situation as a whole will not likely be affected. Proceeding to the

next step, we may consider retaining the transport capacity for a small quantity of strategic materials and gradually freeing the vehicle teams subordinate to the regional communications department and the vehicle teams of the communication bureaus of the districts, municipalities, and towns. After freeing control of the vehicles of the district and municipality levels, although the regional level will still have 15 percent of the vehicles, 65 percent of the transport capacity of goods into Xizang will still have been retained. This can still provide sufficient ground for manoeuvre. The ultimate target will be making the whole transport system operate in the regular manner of business units. In principle, the administrative departments should no longer retain any freight vehicles for transport operations and allocation of the transport capacity will then mainly depend on market regulation.

#### 4. Current condition of credit cooperatives and tentative ideas for their reform.

Although Xizang lacks civilian capital funds, the credit cooperatives still have not performed their role of promoting the turnover of funds. In 1983, the credit and loan funds of the rural structure of the whole autonomous region amounted to 250 million yuan, averaging 714 yuan per household. This was a fairly large figure, but the cumulative amount of the credit and loans disbursed was only 26.55 million yuan. The Rikaze district fared slightly better; yet of its available loan funds of 41.19 million yuan, only 8.5 million yuan were loaned out; and the utilization rate of the funds was actually only 0.6 times a year and loan funds thus remained practically idle. One of the important reasons for the slow turnover of funds of the credit and loan cooperatives is that the loans bear no interest. The banking structure is primarily interested in promoting savings deposits carrying bonus payments. On the part of the credit cooperatives, on their interest-free loans, the interest differential of 3.3 percent is subsidized by the agricultural bank. But this subsidy, which is lower than the regular interest rate on bank deposits (deposits at the agricultural bank carry an interest rate of 3.6 percent), cannot be collected until after the loan repayment. Thus one party provides the subsidy without any compensation while the other party can make no profit at all. Naturally, the bank lacks the initiative to encourage loans from the cooperatives while, on the part of the cooperatives, they rather prefer to deposit the funds in the bank since they can obtain a higher interest rate not to mention the bonus payments. Thus the cooperatives have no interest in granting loans and would even go to the extent of depositing in the bank funds belonging to the higher level organs. It was found that over 50 percent of the bank deposits of the credit cooperative of Dingri County consisted of funds belonging to the higher level organs. The general public's comment on the credit cooperatives is: "Happy to take deposits; but extremely interrogative in scanning loan applications." Unless absolutely necessary, they prefer not to grant any loans. This has the ultimate result of mitigating the enthusiasm of the general public for depositing their funds. In addition, due to the many instances of exempting outstanding loans from repayment, certain people have become unable to discern bank loans from financial relief funds. This practice of borrowing without subsequently repaying aggravates the difficulties of the credit cooperatives in recovering loans and further restrains their enthusiasm for granting loans.

The situation of the credit cooperative network having few outlets or points and of the poor standard of the personnel and general confusion in management and control is far worse than that found in the commercial structure. Of the credit cooperatives in the whole region, the average coverage area per station and per person are respectively 2,588 square kilometres and 1,078 square kilometres. In many of the credit cooperatives, it usually happens that one employee takes care of two jobs, acting both as accountant and cashier. The cultural level of nearly all the employees of the credit cooperatives is below that of primary school. In 1983, 30.16 percent of the credit cooperatives in the whole region reported losses in their books. In the Rikaze district, the rate of errors committed by the accountants and that committed by the cashiers was respectively 570 percent and 1,530 percent of those ordinarily tolerated by banks.

Funds constitute one of the most lively factors of commodity economy. If funds remain idle, commodity economy cannot grow. Speeding up the turnover of funds has the special and key role of breaking through the natural economy and enlivening Xizang's economy. Reform of the currency department is of extreme importance. Tax rates and interest rates constitute powerful levers in macroscopic economic regulation. The present measures under the slogan of "benefiting the populace," such as tax exemption, financial subsidy, and interest-free loans are equivalent to abandoning the tactics of macroscopic regulation. Their long-range effects on control of the economic system are extremely disadvantageous. Even at present, the policy of exempting interest charges on loans has not only not promoted the circulation of funds but has also restrained the development of commodity economy. In our opinion, "giving benefits to the populace" or providing loans of a relief nature should best take the form of direct financial appropriations; interest-free loans and loans not requiring repayment are bad for training up a high standard in commodity operations of the populace and are not advisable.

Our tentative idea is that credit cooperatives should be gradually open to tender for contracting for operations on a rental or lease basis, that loan interest rates should be allowed to fluctuate within a definite range, and that the operations should be in the nature of assuming sole responsibility for one's own profit or loss. The agricultural bank should designate the amount of reserve funds of the credit cooperatives, at the same time instituting the system of agents entrusted with the handling of credits and loans, thus facilitating the horizontal flow of rural funds. This makes possible the availability of loans in places which need them badly and also overcomes confusion in the management and control of credit cooperatives. Nevertheless, it must be pointed out that the floating of interest rates on the deposits and loans of the credit cooperatives may cause vying for deposits with the banks and difficulties in obtaining loans in distant and desolate areas. Following the reform of the credit cooperatives, it is necessary to next consider the reform of the entire financial management system, proceeding in the same direction of making the industrial and commercial banks, construction banks, and agricultural banks operate like regular business enterprises. The people's bank under the control of the region should resort to such tactics as the use of differential reserve rates, differential interest rates, financial subsidies and administrative intervention measures to control the flow of funds.

## 5. Evaluation of the price readjustment measure.

In undertaking the reform of the above-mentioned departments, and including the reform of other departments such as the foreign trade and industry departments which were not touched upon in the above, it is necessary to make a comprehensive plan first and to carry out the steps in unison. Undertaking the reforms separately or department by department may possibly miss one thing or another and stagnate the whole situation. Actually, the central problem of the reform concerns price (including interest rate) fluctuations. Once there are changes in the price of grain, wages are affected and the production cost of the products will likewise be affected. Movements in transport charges will likewise bring about changes in the prices of all the commodities transported. This is all the more true with the loosening of the control of prices in the commercial structure. Movements in interest rates will necessarily bring about changes in the product cost of enterprises which depend on loans. Indeed, even in the reform of the credit cooperatives, the supply and marketing cooperatives and enterprises at the grassroots level will be greatly affected. Hence, any department acting unilaterally may harm or affect the interests of the relevant departments. Thus, it is necessary to fully investigate and study, and make a detailed estimate of, the range of the price fluctuations and the society's ability to bear them.

The enormous losses mentioned above as suffered by the departments are all related to the irrational prices. Some people believe that price readjustment, particularly raising the purchase prices and marketing prices of agricultural and sideline products and raising the transport charges are extremely urgent matters at present. In our opinion, price readjustment and loosening price control (making price float) have different meanings. Price readjustment cannot solve the most basic problem of the price structure, while loosening price control is the prerequisite to enforcing contracting, renting, and leasing by the enterprises. In the current inflexible income composition formulated by the administration, reduction of losses by a certain department frequently results in other departments paying the price of receiving less income; reduction of deficits by the manufacturer likewise frequently makes the consumer pay for any increase in expenses. Price readjustment in a simplified manner, within a certain plane, cannot yield any economic results. On the contrary, if, simultaneously with loosening the control on prices, enforcement of contracting and reform is carried out, then flexibility is provided to the income structure and it will be possible, through dividing the "cake" anew, to enable the "cake" to play a larger role. Take for example the relations between transport charges and commodity prices: if there is no change in the structure, a rise in transport charges will bring about a corresponding rise in the prices of all commodities. On the contrary, if the control of transport charges and of commodity prices is simultaneously loosened and the system of assuming sole responsibility for profits or losses is carried out at the same time, then, despite the rise in transport charges, commodity prices will rise or fall in accordance with the relations in the market supply and demand. At the least, it would no longer be necessary to transfer stockpiled goods from one place to another or to seek the clearance from higher levels of disposing of the stockpiled commodities at reduced prices.

Price readjustment can only to a certain extent ease the contradiction between stipulated prices and market supply and demand but cannot react in a continuous and swift manner to the fluctuations in market supply and demand. Moreover, price readjustment belongs to the category of work requiring a rather advanced technique. Viewed from the present condition of Xizang's commodity price structure and personnel makeup, there is no way to ensure the thorough implementation of a scheme for all-round price readjustment, although such a scheme is formulated. In particular, raising the transport charges should demand special precautions. Under the conditions of the lack of manoeuvring space for the price structure, a rise in transport charges means a rise in all prices. In addition, due to the power of control being rather weak, a situation of an all-round rise in prices may ensue. This will imperil the opportunity of success which is highly hopeful in the case of carrying out a reform calling for the gradual loosening of price control. Therefore, the urgent task at present is not to risk the danger of losing control through enforcing price readjustment to reduce huge losses on the books but rather, to carry out a more thorough reform of the structure. Under the powerful financial and material support of the central government, stepping up research on the future road of reform may achieve a breakthrough in finding out the concrete steps for procedure. According to our initial understanding of the condition of the market prices, there are future prospects for continuing research on the direction of reform.

#### IV. Several Supplementary Explanatory Notes

1. In the reform of Xizang's economic structure and its economic development, it is necessary to consider the social and cultural factors. Respect for, and eulogizing, Xizang's culture and its psychology of national self-pride constitute the basic starting point of the policy for national and religious readjustment.
2. Reform of the economic structure does not simply mean "loosening" or "easing the bondage." The smooth progress of reform must be ensured through strengthening the government's power of macroscopic readjustment and control. In particular, in such sectors as opposing monopoly, doing auditing and taxation work, reforming the personnel system and organizing the introduction of a mobile and large-scale force of talented personnel all require the government to bring its organizational function into full play.
3. Development of Xizang's economy, apart from bringing into being, through reform, a commodity exchange relationship on a social scale, further requires the development of relevant industries and leadership industries and also formulation by the government of a relevant industrial policy. In view of Xizang's special status of being backward in production and its people's low standard of living, and its other restricting conditions such as poor communication facilities, high cost of transport, and small volume of materials in circulation, priority development should be accorded to industries and undertakings with a high value content and large information content. The tourist trade not only requires little investment and can earn money quickly but can also bring in much information on modern standards of living and production methods. It carries an important social significance in breaking the stagnant character of Xizang's sealed-off economy. It deserves priority consideration.

4. Locality differences are rather great in the interior of the Xizang Autonomous Region. Circulation of information is slow. In the reform, this special feature can be made use of to gradually enforce the reform by separate districts. With the trial points as a start and after certain experiences have been gained, the reform can be carried out on a gradually widening scale. Under the conditions of not overly disturbing the whole situation, we should endeavor to secure the success of the reform by paying a minimum price.

5. In the course of our investigation, writing, and editing work, the leadership at various levels in the Xizang Autonomous Region have further carried out the central government's Document No 6. The rural areas have enforced the system of "each household having use of its own land and operating autonomously--this without change for a long time to come"; while the pastoral areas have carried out the scheme of "each household having its own cattle stock, privately owning and privately herding them, and operating autonomously--this without change for a long time to come." State purchases of animal husbandry products have been abolished and price control has been completely loosened; in the construction, communications, and machine-building sectors, the contracting and hire and lease responsibility system has been enforced. In the whole of Xizang, a new situation of political tranquility and comradeship among the populace and of economic development has begun to appear. In 1984, the per capita income of the peasants and herdsmen is anticipated to top the 1983 figure by 10 to 15 percent. The industrial and communications departments have initially displayed signs of the simultaneous growth of output value, economic results, and taxes and profits. The guideline determined by the central authorities of "opening to the outside and internally carrying out reform" has begun to take effect in Xizang. It is our firm belief that further enforcing a thoroughgoing reform can definitely and greatly promote economic and social progress and Xizang's development.

Due to our own limited ability, the shortness of investigation time at our disposal, and the small number of localities investigated, the above analysis unavoidably has certain defects and may embody elements of supposition and imagination. Our original idea is to bring out a line of thought which has a future. It is hoped that people will continue these studies.

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ECONOMIC MANAGEMENT

SHAANXI LEADER SPEAKS ON ECONOMIC WORK TASKS

HK100319 Xian Shaanxi Provincial Service in Mandarin 2300 GMT 9 Mar 85

[Excerpts] Zeng Shenda, deputy secretary of the provincial CPC committee, said at the provincial economic work conference on 9 March: This year the guiding idea for the province's economic work is to seriously implement the CPC Central Committee's decision on reform of the economic structure, continue to eliminate leftist and outdated concepts, stick to the principle of invigorating the domestic economy and opening up to the world, vigorously grasp the cardinal link of invigorating the enterprises, especially large and medium enterprises, carry out reforms in depth, speed up the pace of technical progress, organize and coordinate well production and all other work, and strive to create a new situation in improving economic results.

Comrade Zeng Shenda stressed: The province must focus on grasping the following tasks in industry and communications production this year:

1. Focusing on invigorating the large and medium enterprises, do a good job in streamlining the administration and delegating powers. Before the end of April, the economic management departments and comprehensive departments in the prefectures and cities should unwaveringly delegate to the enterprises all powers regarding personnel, finance, material, supply, production, and marketing that should be delegated to them. Where this can be done immediately, action should be taken right after this meeting.
2. Vigorously increase output of products that sell well and meet market needs, and continually develop new products.
3. Encourage and support the enterprises in diversifying while focusing on one trade, in importing from abroad and establishing links with other parts of the country, and in developing horizontal economic ties.
4. Vigorously promote economic progress and speed up the technological transformation of existing enterprises.
5. Do a good job in consolidating the enterprises and step up worker training.

6. Work with vigor to speed up the development of township enterprises.

7. Suit the new situation in reform of the economic structure and opening up to the world, by further improving and strengthening ideological and political work. At present it is particularly important to stress strengthening the sense of discipline and seriously correcting the new unhealthy practices that have appeared in the new situation.

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## ECONOMIC MANAGEMENT

### RELATIONSHIP BETWEEN PRODUCTIVITY, EMPLOYMENT DISCUSSED

Beijing JINGJI YU GUANLI YANJIU [RESEARCH ON ECONOMICS AND MANAGEMENT] in Chinese No 5, 30 Sep 84 pp 22-25

[Article by Wang Yongjiang [3769 0186 3068]: "A Discussion on Raising Labor Productivity and Increasing Employment"]

[Text] Earlier, in the course of discussing the theory of labor employment and its practice, many comrades offered views on the relationship of the growth of labor productivity to the rate of employment. Some comrades contended that if we want to raise labor productivity, we would be unable to expand the scope of employment; if we want to increase employment, the labor productivity would decline. We consider this an issue that deserves a thorough discussion, a matter of interest to the development of our economic strategy. Proposed for discussion in this article are some of my personal opinions that welcome accurate responses.

#### Labor Productivity and Employment Grow Simultaneously

We must basically have a common ground on which matters concerning relationships between labor productivity and employment can be discussed. In other words, they should be discussed in light of the objective reality of expanded reproduction at the present stage of our socialist society, in light of our socialist society's economic development process rather than in light of its isolated stages and departments or several individual fiscal projects.

From an analysis of the historical course of our socialist economic development and the economic theory of joint venture and public ownership, we have come to view the correct handling of the relationship between labor productivity and employment as part of an effort to achieve "four modernizations" on the one hand and full employment on the other.

Can this be achieved? We feel that this can be achieved. Of course, it cannot be realized in a matter of a few days. Theoretically, the realization of four modernizations in terms of industrial and agricultural production means arming industrial and agricultural workers with modern technology and equipment so as to speed up the development of industrial and agricultural production. To this end, constant efforts must be made to raise labor productivity. In the final analysis, raising labor productivity means

saving labor-time; saving labor-time is tantamount to the development of productive forces; the development of productive forces opens a fundamental way to increase employment. In his "Manuscript on Economics" analyzing the capital circulation process, Marx pointed out: "Saving labor-time is tantamount to the development of productive forces." Under the socialist condition, raising labor productivity means an increase in surplus labor provided by producers of material goods, an additional contribution to the production development fund made available to society, an expansion in the scope of production and an increase in the number of the employed. As far as the industrial sector is concerned, given a specific amount of production fund, an increase in labor productivity would result in lowering demands for labor force. However, with labor productivity on the rise, the production fund would have no way of resisting changes, and would have to be increased. Under this condition, an increase in the gross output of the industrial sector is expected along with changes in the product mix.

In view of this, an increase in labor productivity is likely to broaden the scope of production in the first category and place new demands on it. Consequently, more new and technically advanced producers and workers would be needed. Within the framework of the consumer goods production sector, workers' demands for means of subsistence would also be greater than ever due to an increase in labor productivity, thus giving rise to demands for more consumer goods and creating more jobs. In short, the assumption that labor productivity usually goes up while production goes down to wrong. During the 3 years of our nation's economic recovery and the first 5-Year Plan period, a continuous increase in labor productivity and the number of the employed was noted. In the short space of 8 years, some 4 million unemployed from the old China were properly resettled in addition to placing in job the new labor force then grown up in urban and rural China. Even under the capitalist condition with "machines replacing workers," the absolute number of employed workers do not necessarily go down in the wake of the development of the machinery industry. On the contrary, the number of employed workers normally go up, a point that has been corroborated by the development of all capitalist economies. For example, as a result of the Civil War between north and south, the United States noted a sharp increase in the total employment of workers from 957,000 in 1850 to 7.427 million in 1900.

The fact that the material production sector's demands for labor would decline as a result of an increase in labor productivity does not necessarily mean that society's demands for labor would decline too. On the contrary, as a result of an increase in labor productivity, the number of firms serving production and people's daily needs would increase. With the development of trades serving production and people's daily needs plus changes in the internal structure of the material goods production sector, greater demands would be placed on communications and transportation, post and telecommunications, and building industry for their expansion, which would trigger a chain reaction in developing these trades, and would provide a material guarantee for broadening the scope of employment by those trades beyond the framework of the material production sector. For example, from 1950 to 1980, the United States registered an increase of 231 percent in the number of

service trade personnel, 173 percent in the number of employees of banks and insurance companies, 168 percent in the number of government agencies; sectors of commerce, building, manufacturing and mining industries grew at a rate of 119, 89, 34 and 14 percent respectively. All told, non-agricultural personnel increased by 77 percent from 43.7 million to 77.2 million. This fact shows that the consequence of the growth of labor productivity is not a reduction in the total employment of society but a migration of labor, which will result in changing the social structure of job placement services. A review of the history of the development of human society would reveal a separation of agriculture from animal husbandry, agriculture from handicraft industry, and agriculture from commerce which took place in the wake of the growth of agricultural labor productivity. Today, the growth of agricultural labor productivity has similarly triggered a migration of labor force in the direction of industry and service trades, causing it to grow in strength constantly. The overall labor force would not have grown so rapidly in case of zero growth of labor productivity. For this reason, in studying what effect the growth of labor productivity will have on the status of employment, we must focus attention on the effect it may have on the industrial structure so that jobs can be placed by keeping pace with the changing pattern of industrial structure.

The growth of labor productivity is bound to trigger a change in the intellectual structure, giving rise to demands for developing culture, education, science and technology and for extending the training of those holding jobs which will result in shortening the length of their time devoted to manual labor throughout their career life. Doing so can also create a condition for increasing employment. With the development of labor force, we will see our society's total length of time devoted to manual labor extended rather than shortened. But as far as an individual is concerned, his length of time directly devoted to manual labor would be shortened rather than extended as a result of the growth of productive forces, thus creating more jobs.

As seen from the above and from the development of social reproduction as a whole, labor productivity and employment grow simultaneously, and will in no way result in contradiction opposed to each other. The vast unemployed army that exists in capitalist society is an inherent product of the capitalist system, a spontaneous organizational form of labor adjustment of capitalist society, indispensable to the existence and development of capitalism. The existence of the vast unemployed army in the capitalist society should not be viewed as a result of the growth of labor productivity. Under the socialist condition of public ownership, there exists absolutely no such objective tendency to raise labor productivity at the expense of the employment rate.

#### Correct Handling of Contradiction between Enterprise Labor Productivity and Job Placement

The statement that in the course of developing social reproduction, Labor productivity and employment grow simultaneously does not mean that there exists

absolutely no contradiction between raising labor productivity and increasing employment. Within the framework of an individual enterprise given a fixed amount of production fund, the growth of labor productivity will inevitably call for lay-offs, thus creating a contradiction between raising its labor productivity and increasing its employment. Under such circumstances characterized by a fixed amount of production fund, any coercive measure to increase employment will certainly result in lowering labor productivity. But on that basis, no one should assume that if our country wants to achieve full employment, it should do so at the expense of labor productivity.

During the past several years, our endeavor to solve the vicious problem of unemployment caused by the "10-year turmoil" has led enterprises to accommodate labor force beyond their demands, thus adversely affecting the growth of labor productivity. However, it is also unfair to blame the lowering of labor productivity that once occurred to our country entirely on the swelling of employment since factors affecting labor productivity are numerous. For example, economic adjustment, the slumping heavy industrial growth rate that occurred once before, unreasonable prices and profits, the lowering of workers' political and technical qualities, and the backwardness of the labor organization administration are among factors that have prevented the growth of labor productivity. The lowering of labor productivity that occurred earlier under a specific historical condition was caused by objective factors and would not last long. If the number of unemployed youths were allowed to increase without taking any prompt action to place them in jobs, it would have become a serious socio-political problem, and a grave threat to the development of the economy.

As seen from the normal development of social reproduction, there does exist in an enterprise contradiction between increasing labor productivity and employment. Failing to recognize this fact would cost us the name as a student of materialism. But since both are not contradictions opposed to each other, they can grow simultaneously, if they are properly handled.

First, when labor productivity goes up, it means that surplus labor is on the rise. This being the case, the fund accumulated for the development of production, drawn from the national income, should be increased to enable enterprises to broaden the scope of production through the growth of labor productivity, thus clearing the way for increasing job opportunities. For example, some light textile industrial enterprises in our cities have turned one textile mill into two or three mills in the wake of the growth of labor productivity, thus bringing about a rapid increase in employment.

Second, even if an enterprise is not ready to broaden the scope of production in the wake of the growth of labor productivity, the inevitable development of specialized divisions of labor and the relationships of closer coordination among them will enable it to develop production in the direction of joint venture, and to organize manpower resulting from the decreased labor productivity to open enterprises serving production and people's daily needs and to engage in construction, transportation and other undertakings whose development still can absorb manpower.

Third, in the wake of the growth of labor productivity, workers within an enterprise may be required to make constant efforts to improve their skills, and timely measures may have to be taken to give those holding jobs cultural and technical trainings. Meanwhile, workers capable of mastering new technologies immediately may be in great demand, raising employment to a new high.

Fourth, to raise labor productivity through technical innovation is an important but not the only way to develop production. Given the present levels of productive forces in our country, equipment cannot be immediately renovated by any enterprise on a grand scale, because it requires capital as well as workers capable of mastering related technologies, a problem which cannot be solved by imports alone. This requires our country to emphasize the labor conservation, to take full advantage of existing technologies and equipment, and to take proper measures to develop handicraft industry. This means that an enterprise is encouraged to enhance a gradual development of new technologies as well as handicraft industrial production through which funds can be raised for the purpose of renovating technologies and equipment. In other words, employment still can be raised at a time when labor productivity goes up.

Fifth, the proportional development of the socialist economy is well planned. So is the distribution of socialist labor force. For this reason, when surplus personnel are laid off by an enterprise as a result of the growth of labor productivity, no rigid measures should be taken to put them back on job. Instead, labor force should be allowed to circulate freely, plans should be worked out to develop new industries and open new avenues of production so that surplus labor force can be promptly employed by these new enterprises in order to prevent the lowering of labor productivity.

At present, the contention prevailing in some enterprises across the country that employment would suffer whenever they want to increase their labor productivity, and if they want to increase employment, they would have no alternative but to lower their labor productivity reflects neither the intrinsic nature of the socialist economy nor the objective law governing the development of the socialist economy. It results from the inability of our entire national economic management system to adapt itself to the development of the socialized mass production. For example, the labor employment system, the recruiting system and the wage system among others are not designed to favor the emergency migration of labor force in coordination with the development of production. Nor are they designed to favor the simultaneous growth of labor productivity and employment.

#### How Enterprises Can Endeavor To Raise Their Productivity Under the Current Circumstances Characterized by Overstaffing

Strictly speaking, the current low labor productivity in our country is not the result of the rapid growth of employment. Among the major factors that have caused this are the cultural and technical levels of the employed which still lag behind enterprises' demands for developing production technology

and the mismanagement of labor organizations which has resulted in over-staffing. At present, some enterprises' newly recruited personnel are ones who have either completed training provided by technical and vocational middle schools or completed the pre-employment short-term vocational training and therefore are more capable of mastering technical manuals emphasizing safety in production than others. Moreover, they are also ones with a higher sense of organization and discipline and able to promote production with a mind of contentment. As a result, enterprises' labor productivity still continues to grow despite an increase in the number of the employed. By rigidly allocating quotas, by blindly recruiting technically untrained junior and senior middle school students, and by mismanaging their businesses, other enterprises have come up with products unable to meet the new demands of markets. The consequence is a stockpile of unmarketable products produced at high costs and wasted in warehouses. Their inability to organize labor effectively to fulfill production quotas and to tighten discipline has resulted in numerous accidents on the production line, and overstaffing, which has caused labor productivity to drop. Therefore, if we want to take advantage of our present technical levels to raise labor productivity, we must concentrate forces on overcoming the situation characterized by overstaffing.

First, we must go all out to revamp labor organizations. Controlling labor force within socialist enterprises is an objective requirement essential to the development of socialized mass production and socialist relations of production. For this reason, constant efforts must be made to strengthen and improve the labor force control work until it becomes perfect, and to establish and perfect the labor management system. To this end, we must go all out to revamp labor organizations, organize labor force and distribute labor according to the objective requirements for the development of socialized mass production. We must reasonably distribute labor force to a variety of enterprises' functional sections. At present, the organization of labor by some enterprises is far from reasonable. Consequently, their first line of production has been understaffed while their second line in support of production has been overstaffed and their other agencies, offices and sections not directly associated with production have become unwieldy. By arranging labor force according to this ratio, they can in no way raise their labor productivity despite their efforts to cut the number of the employed to the minimum. For this reason, in revamping enterprises, we must make successful efforts to reorganize labor, and eliminate the overstaffing phenomenon as a guarantee for raising labor productivity.

Second, advanced and reasonable standards for limiting the number of staff members and setting quotas must be established. At present, quotas set by some enterprises are too low. The consequence of overstaffing has led workers to sit idly by and waste their time. Some enterprises have even gone so far as to ignore the need for setting and fulfilling quotas. This approach to loosen and relax discipline and to discourage workers from making progress is not in interest of the endeavor to improve their qualities and raise their productivity. Strengthening the control of manpower at an approved level and the quota system provides a basis for enterprises to raise their labor productivity. Of course, there does exist contradiction

between fulfilling production quotas and increasing employment, a contradiction characterized by the following fact: by limiting the scope of production to a certain level and by deploying the labor force within the limit of human resources and according to the quotas to be fulfilled, any enterprise will find itself unable to recruit the unemployed at will. As a matter of fact, to carry out production not based on quotas and available manpower and to carry out production with a blank check for hiring people is not in interest of the endeavor to develop production and increase employment. Only by organizing production based on fixed numbers of employees and quotas can an enterprise raise its labor productivity, improve its economic results, accumulate more fund, expand reproduction, and increase employment.

As for those surplus personnel resulting from carrying out production based on fixed numbers of staff members and quotas, they should be organized to receive training for transfer to other lines of labor duty or organized to serve production and people's daily needs.

Third, we must go all out to improve the quality of labor force. Given a specific technical level of production and a specific type of labor organization, the qualitative standards of labor force will have a decisive effect on labor productivity. The political, cultural and technical qualities of the overwhelming majority of members of the labor force employed during the past several years have been very low and have been falling below the levels of cultural and educational qualifications their work demands. This is one of many serious consequences caused by the "Gang of Four" during the heyday of their power which spanned 10 years, an important factor that has prevented the labor productivity from going up. For this reason, vigorous efforts must be made to start the training of all members of our labor force, to encourage administrators in charge of production, financial and accounting personnel, and workers to take turns to receive stage-by-stage training, and to organize those totally or partly released from productive labor to devote spare time to study aimed at strengthening communist ideological education, education in patriotism, occupational ethical education and education in cultural, technical and professional knowledge in order to improve the quality of labor force on a grand scale. A success in this direction will provide a reliable guarantee for raising labor productivity.

Fourth, surplus labor force must be organized to broaden prospects for production and service trades. At present, in our society there are people waiting for jobs as well as enterprises with openings to be filled. In view of this, after carrying out production based on a fixed number of personnel and fixed quotas, enterprises will have no difficulties in finding opportunities for surplus labor force. But the problem lies in how to strengthen the organization and administration of this work. As for the surplus manpower, it can be organized to carry out labor intensive activities or provide a variety of services for society. Through cumulative labor activity, more funds can be raised to provide a condition for expanded reproduction.

Fifth, the individual and economic responsibility systems should be established and improved; responsibilities of workers, their power to manage the economy, and compensation for their services should be treated as an organic part of the whole; a strict line should be drawn between those who deserve commendation and those who need to be punished through evaluation. Only in this way can their enthusiasm be brought into full play. Within the framework of socialist enterprises of public ownership, workers are not only masters of means of production but also workers in the first line of duty with each controlling and employing the means of production of public ownership at his specific post. For this reason, they must firmly and conscientiously discharge their duties while being delegated a full power over the management of the economy. Consumer goods will be distributed to workers by enterprises according to the principle of "to each according to his work." Only by closely integrating the above three aspects can we fully stimulate their enthusiasm for managing the economy, developing production and raising their productivity.

As seen from the above, it is not only objectively necessary but possible to raise labor productivity continuously in socialist society, which is not opposed to the endeavor to expand the scope of employment. As long as we organize the employed labor in scientific ways and in line with the provisions of socialist economic laws and the real and concrete conditions of our country, our labor productivity will not drop. Instead, it will continue to go up, thus providing a fundamental guarantee for expanding the scope of employment.

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ECONOMIC MANAGEMENT

IMPROVING THE ECONOMIC RESPONSIBILITY SYSTEM

Beijing JINGJI DIAOCHA [ECONOMIC SURVEY] in Chinese No 2 Jan 83 pp 49-53

[Article by Qiao Rui [0829 6904]: "Several Issues on Improving the Economic Responsibility System in Industrial Enterprises"]

[Text] In September and December 1981 and January 1982 we went to Shandong, Shanghai and Zhejiang to conduct studies on the issue of improving the economic responsibility system in industrial enterprises.

1. Achievements and Problems of Implementing the Economic Responsibility System

Most industrial enterprises in these areas have developed their economic responsibility system on the basis of the experiment of expanding their decision-making power. The chief method adopted by Shandong Province in regard to the economic relationship between the state and enterprises is the multi-level profit-contracting system. At the beginning of 1981, 70 percent of its budgetary state-run industrial enterprises implemented the economic responsibility system.

At the end of 1981, the percentage increased to 90. Shanghai Municipality, which began by expanding the decision-making power of individual enterprises, has not allowed industries to retain a certain percentage of total profits--namely "sharing total profits, redistributing industries and fixing enterprises' profit bases for 4 years." At the beginning of 1982, the number of bureaus adopting the above measures increased from three--metallurgy, textile and light industries--to 11; and enterprises implementing the economic responsibility system accounted for 74 percent of the state-run industrial enterprises in Shanghai Municipality. Zhejiang Province has basically followed the former method of expanding enterprises' decision-making power and implemented base and surplus profit sharing systems. At the beginning of 1982, 66 percent of all the enterprises in Zhejiang implemented the economic responsibility system. Furthermore, to arouse the initiative of bureaus in charge of enterprises, Zhejiang Province also stipulated that beginning in 1980, provincial and city industrial bureaus may draw a portion of funds from the surplus profits of the enterprises under their jurisdiction and use them to develop the production and welfare undertakings of their industries. The proportions of funds retained by different industrial bureaus vary generally between 10 and 20 percent.

Workers' personal responsibility system has been established extensively in enterprises. Under this system, jobs are determined by workers, responsibilities by jobs and bonuses by responsibilities. The former bonus evaluation system has been replaced by such systems as point accumulation, total piece rate, above-quota piece rate, small collective above-quota piece rate and fixed contract. The principle of to each according to his work has been implemented and the practice of "eating from the same big pot" and egalitarianism have been basically overcome. In Shandong Province, 300,000 people or 25 percent of all staff members and workers of budgetary state-run enterprises are paid under the above-quota piece rate wage system; the ratio in Shanghai and Zhejiang is lower, about 10 percent in general.

Judged by the situation of these areas, the economic responsibility system has been implemented very rapidly in industrial enterprises and the general results are satisfactory. This is expressed in the following ways:

A. Relatively good economic results have been achieved. In 1981, due to the national economic readjustment, the production tasks of the heavy industry were insufficient, the prices of raw materials increased, the prices of products declined, the number of factors that reduced income and increased expenditures increased and state-assigned financial plans and targets were generally unable to be fulfilled. Since the implementation of the economic responsibility system, the enthusiasm of enterprises and their staff members and workers has been aroused. They have tried in a hundred and one ways to increase income by improving management and administration, tapping potential and engaging in comprehensive utilization. Consequently, enterprises' appearance has changed and their economic results improved. In the first 4 months of 1981, the average monthly output value of budgetary state-run industrial enterprises in Shandong Province was 1.34 billion yuan. After the implementation of the economic responsibility system in the last 8 months of 1981, the figure increased to 1.478 billion yuan, 10.3 percent more than the first 4 months. Between January and April, the budgetary state-run industrial enterprises in Shandong Province delivered an average of 97 million yuan in profits to the state each month. Between May and December, they delivered an average of 134 million yuan to the state each month, showing an average monthly increase of 38.1 percent over the first 4 months. Although various factors reduced their profits by as much as 278 million yuan, accounting for 13 percent of their total profits, they still delivered 1.47 billion yuan of profits to the state in 1981, overfulfilling their 1.42 billion yuan contract target and registering an actual increase of 1.7 percent over 1980. They also paid 2.01 billion yuan in taxes, an increase of 10.4 percent over 1980. The 1,434 enterprises (74 percent of all enterprises) in Shanghai Municipality that implemented the economic responsibility system registered an increase of 75.32 million yuan or 0.8 percent in profit delivery and an increase of 196 million yuan or 5.2 percent in tax payment in 1981 despite the fact that various factors reduced their profits by as much as 600 million yuan.

B. The management level of enterprises has been raised. Implementing the economic responsibility system in industrial enterprises has integrated the interests of the state, enterprises and staff members and workers. It has enhanced the sense of responsibility of the broad masses of cadres and staff

members and workers of being their own masters. The broad masses of staff members and workers have shown more concern for the management results of enterprises. Many enterprises have considered strengthening economic accounting, establishing and improving the personal responsibility system and carrying out strict evaluations as important contents of improving the economic responsibility system. By so doing they have improved their management level and economic results. Under the condition that the prices of raw materials and the number of staff members and workers have increased, quite a few enterprises have achieved good results such as lower production cost, higher labor productivity, increased profits and reduced fund utilization. According to statistics relating to 1,586 budgetary state-run industrial enterprises compiled by Zhejiang Province in mid-December 1981, the average number of staff members and workers in 1981 showed an increase of 17,000 over 1980, but the labor productivity increased 5.2 percent and the production cost of comparable products declined 0.2 percent. In 1981, profits yielded by each 10,000-yuan of output value in Shanghai Municipality increased from 21 yuan in 1980 to 21.5 yuan, an increase of 2.4 percent; circulation funds occupied by every 100-yuan output value declined from 15 yuan in 1980 to 14.3 yuan, a decline of 4.7 percent; the energy consumption of each 10,000-yuan of output value declined 3.5 percent and the production cost of comparable products declined 0.1 percent. Some "problem" units which had long been passive and backward also took on a new look after implementing the economic responsibility system. The Jinan Linen Factory had chaotic management and very poor economic results for years. Between January and May 1981 it lost 317,000 yuan. In June, it began to implement the economic responsibility system and in the same month it turned deficits into profits. In the second half of 1981, its output was 71.4 percent higher than in the first half of 1981, its first-grade product rate increased from previous 36 percent to 90 percent and it made a profit of 51,900 yuan.

During the studies, many comrades of enterprises and responsible departments suggested that after implementing the economic responsibility system we should not judge enterprises' achievements solely and simply by their profit delivery. Instead, we should make overall, comprehensive analyses and comparisons; otherwise, it would be very difficult for us to reach objective and factual conclusions. They think: (1) In addition to profit delivery we should also take into account the increase of tax payment, because in the past few years great efforts have been made to develop the production of consumer goods and the value created by light industrial products, which are generally less profitable but heavily taxed, has been delivered to the state mostly in the form of tax payment. (2) In addition to profit delivery and tax payment, we should also take into account the amount of loans returned. In the past few years, the source of funds needed by enterprises to develop production, improve product quality, replace equipment and carry out technological transformation has changed from state appropriations to bank loans. Enterprises need to use their newly-earned profits to pay for the capital and interest of their loans according to agreed plans. (3) We should also examine various objective factors affecting the profit delivery of enterprises such as the readjustment of product mix, the reduction of production tasks for heavy and machinery industries, the price increase of raw materials, the price reduction of products and the increase of various social burdens on enterprises. (4) We should consider expanding enterprises' decision-making power a major achievement of

reforms because it has changed the past situation of the state's overcentralization and stifling control of financial power and thereby increased financial reserves for enterprises. Many things which used to be directly financed by the state are now paid for by enterprises with their share of profits. Enterprises have used such funds to meet many urgent needs in production and daily life, thus reducing financial difficulties and expenditures for the state accordingly.

## 2. More Comprehensive Contents of Economic Responsibility System

To implement the economic responsibility system, many enterprises begin with the profit sharing or the profit contracting system. This practice is liable to cause the phenomena of working hard for large profits, refusing to work for small profits and ignoring the variety of products. It can affect the implementation and all-round fulfillment of state plans, cause the production of some products to divorce from demands and even cause the quality of products to decline. These problems had existed to different degrees before the implementation of the economic responsibility system, but after the implementation the contradiction became more prominent. These problems have already begun to draw attention from all areas. In the second half of 1981, Shandong Province convened five meetings to study the guidelines of the directives issued by the CPC Central Committee and the State Council on implementing the industrial economic responsibility system and to discuss and mete out measures in light of Shandong's actual conditions to better unify the economic responsibility system with state planning and control. These measures have achieved positive results.

First, the practices of contracting purely for profits and evaluating only by profit targets have been gradually developed into comprehensive contracting, insurance and evaluation system and contract targets have been broken down and assigned to work groups and individuals at each level.

When the 66 key enterprises on which Qingdao City has been working began to implement the economic responsibility system in July 1981, they adopted the comprehensive contract and evaluation system. Not only do enterprises contract for profit targets, but according to their different conditions, they also contract for output and quality. There are also enterprises who contract for the six targets of profits, output, quality, variety, consumption and goods supply contracts. According to the fulfillment of these targets, enterprises will receive rewards or penalties. The retained profit funds of enterprises and the above-quota wages of staff members and workers will be increased or reduced accordingly. Prominent economic results have been achieved through this practice.

In 1981, Jinan City's textile department was contracted to enterprises for the six targets of profits, output, variety, quality, consumption and labor productivity with rewards and penalties specified for every target. According to the contract targets set by the textile bureau, enterprises assigned different contract targets to different levels, from workshops (offices), workgroups and down to individuals, forming a target evaluation and insurance system that combined responsibilities, rights and benefits and increased the economic

results of the whole textile department in an all-round way. In 1981, the total industrial output value of the department increased 14.4 percent, and its profits increased 21.33 percent over 1980. All major products maintained the first-grade level set by the Ministry of Textile Industry. Eleven products were selected as the quality products of the ministry and the province. A total of 2,565 new designs and varieties were developed and put into production. The production costs of comparable products declined 0.47 percent.

Practice has shown that this comprehensive contract, insurance and evaluation system that combines responsibilities, evaluation and reward and punishment is an important guarantee for better adapting enterprises' production and management activities to state plans and social needs. The current problem is that enterprises' evaluations are not strict enough. Especially after the implementation of the economic responsibility system based on the bureaus and companies in charge of enterprises, the problem of how to conduct comprehensive evaluations of the bureaus and companies has not been resolved.

Second, the departments concerned in charge of enterprises have strengthened planning and guidance for enterprises and done a good job in examination and supervision.

While implementing the economic responsibility system, Qingdao City's economic commission, financial bureau, labor bureau and people's bank have unified understanding, closely cooperated with each other and conducted joint studies to determine the contract targets and sign economic contracts with enterprises. They have guided and supervised enterprises according to the scope of their work and management. The financial bureau has supervised enterprises' business activities, tax payment, profit delivery and fund utilization. The labor bureau has strengthened control over the wages and bonuses of enterprises' staff members and workers in accordance with the wage fund control regulations. When enterprises issue above-quota piece rate wages or bonuses, they have to fill out forms (including the fulfillment of various targets and the amount of above-quota wages) according to stipulations and submit them to the bureaus in charge of enterprises and labor bureaus for examination and approval. Based on these forms, banks can supervise the payment through the special account of wage fund control. Since Qingdao City's industrial enterprises implemented the economic responsibility system, the total amount of bonuses issued has been brought under control, thanks to strengthened leadership and supervision. In 1981, an average of 129 yuan was issued to each person as bonuses, a decline of 12 yuan from the 141 yuan in 1980.

Through ideological work and administrative intervention, Yantai Prefecture has offered concrete assistance for enterprises to organize production in accordance with state plans and market needs. The state issued a plan in 1981 asking the Weihai Light Bulb Plant to produce 2.4 million low-watt light bulbs, but the enterprise was reluctant to do so because it could lose money producing this kind of light bulb. In view of this, the prefectoral economic commission and responsible bureaus conducted repeated ideological work in the enterprise, urging it to guarantee the fulfillment of the state plan and market needs and helped it enhance the concept of planning and understand the principle of subordinating local interests to national interests. They

vigorously organized production in accordance with the state plan. By the end of October 1981, this plant had already produced 2.4 million low-watt bulbs, fulfilling 96 percent of the state plan. In addition, they have also adopted concrete measures to help enterprises solve problems. For instance, they gave appropriate tax exemptions and reductions or special treatment in regard to profit retention to those enterprises which produced low-profit and money-losing products to encourage them to vigorously fulfill state-assigned plans and tasks.

During the studies, many enterprises' leading cadres suggested that the economic responsibility system be "two way" instead of "one way." They said enterprises must guarantee an all-round fulfillment of state plans, but responsible departments at the higher level should also make clear their responsibilities to enterprises, create conditions for enterprises and help enterprises do a good job in linking production, supply and marketing and achieving an overall balance.

### 3. Measures for Correctly Handling the Relationship Between the Interests of the State, Enterprises and the Staff Members and Workers

How do we handle the relationship between the interests of the state, enterprises and individual staff members and workers while implementing the economic responsibility system? An important policy is to first guarantee more income for the state while arousing the initiative of enterprises' staff members and workers. Effective and feasible measures have been meted out in all localities.

Shandong Province has suggested that attention be paid to "four bases." (1) Fix rational contract bases. If bases are too low, they cannot arouse the enthusiasm of enterprises. If they are too high and cannot be achieved even with great efforts, they can also dampen the enthusiasm of the masses. A rational base should be one that can be achieved by enterprises with some efforts and at the same time can be surpassed so that enterprises can gain some profits. (2) Profit-sharing ratios, regardless of the type of method, must guarantee that state revenue increases year after year. The state's share in the yearly increase of profits or the above-quota profits of most profitable enterprises is generally no less than 60 percent. According to the degree of difficulty in making profits, different profit-sharing ratios should be worked out for different industries and enterprises to avoid uniformity. (3) Fix average advanced quotas. Average advanced quotas should be fixed on the basis of scientific calculation according to related state standards, the advanced levels of the same industry and the best historical records of enterprises. (4) Fix rational piece rates for piecework. Most units compute piece rates by dividing standard wages with quotas.

In order to exercise strict control over enterprises issuing above-quota wages, Yantai Prefecture has stipulated that above-quota piece rate wages should be no more than 30 percent of standard wages if all targets reach advanced national levels; they should be no more than 25 percent if all targets reach advanced provincial levels; and they should be no more than 20 percent if all targets reach advanced prefectural levels. At the same time, Yantai Prefecture has also investigated and consolidated enterprises

implementing the piece rate and above-quota piece rate wage systems. In the second half of 1981, after the investigation, 109 enterprises, 17.8 percent of the enterprises implementing the piece rate wage system, were found disqualified and, therefore, stopped implementing the system.

In 1981, the distribution of interests among the state, enterprises and individuals was improved in Shandong Province. Among the 1.949 billion yuan of profits to be delivered by the budgetary state-run industrial enterprises in Shandong Province, the state's share was 1.526 billion yuan, accounting for 78.3 percent, an increase of 1.99 percent over 1980; the enterprises' share was 271 million yuan, accounting for 13.9 percent, a decline of 3 percent; and the share of individual staff members and workers was 152 million yuan, accounting for 7.8 percent, a decline of 1.85 percent based on the calculation of comparable items after deducting an increase of bonuses and above-quota wages resulting from an increase in the number of employees.

At present, many prefectures and enterprises are vigorously exploring ways to implement the principle of to each according to his work and eliminate the practice of "eating from the same big pot" and egalitarianism within the limit of the average bonus level set by responsible bureaus. The Ningbo Power Machinery Plant was not assigned any tasks from the state for a whole year and had to "find food on their own" such being the case, they made good use of the 6 yuan per-capita monthly bonus by distributing 3 yuan as base bonus according to the hundred-mark bonus reckoning system and the remaining 3 yuan according to the profit level of each workshop (office) and their saving on expenditures. By so doing they widened the gaps between the levels of limited bonuses. The highest bonus a person can receive is about 20 yuan. The lowest is only a few jiao or none at all. As workers' labor enthusiasm was very high, this plant turned a planned deficit of 1 million yuan into a profit of over 100,000 yuan.

#### 4. Several Solutions to the Problem of "Uneven Happiness and Hardships" Among Enterprises

The difference of product variety and production conditions and the irrationality of prices and tax rates have caused a great disparity of profits and "uneven happiness and hardships" in the profit distribution of industries and enterprises. This problem has become more prominent along with the expansion of decision-making power and the implementation of the economic responsibility system. All localities are now exploring ways to solve this contradiction to help unleash the enthusiasm of enterprises. Textile industries in Shanghai and other areas have done a great deal of work in this field and have achieved definite results. Their main methods are as follows:

A. The method of price increases for raw materials. When transferring raw materials to be used by enterprises, their prices are readjusted on the basis of unified state prices. For instance, when supplying long and medium-fiber cotton polyester to enterprises, their prices are increased by 7 percent and profits accrued from the price increase are used in a planned manner to subsidize those enterprises which produce low-profit pure cotton yarn and cloth.

B. The method of profit correction. This method is applied when capital utilization levels are basically the same. First, we should compute the profits we expect to gain from 100 meters of each kind of textile product, based on the average return to capital. Then, we should estimate the rate of profits on 100 meters of each kind of product. And then we should use the profit rate of a certain product as the base 1 to compute the readjustment coefficients for the sales income of the remaining products. After that, we should use the readjustment coefficients to multiply the profits gained by selling every 100 meters of different products, thus correcting the profits of these products.

C. The method of internal account settlement prices. Internal account settlement prices are based on the fixed costs and profits of enterprises. They are fixed in accordance with the average profit rate without considering objective factors in current prices. They are used to settle and audit accounts internally. The fixed gross profits are used as a basis for the computation of such prices. The difference between actual and fixed gross profits is used as a basis for computing the profits to be retained by enterprises. Providing necessary subsidies for good-quality products, new products, products in small quantities and renovated products is conducive to regulating the variety of products to suit the needs of markets.

D. The fixed-cost method. This method is used by the Shanghai Silk Industrial Company. It is to find out the fixed profits for every product of an enterprise by subtracting taxes and fixed costs from the sales prices of every product. The fixed profits of all planned products in a planned period are also used as the profit targets of the enterprise during that period. The difference between actual sales profits and fixed profits is called above-quota profits. Implementing the systems of fixed quota profit sharing and above-quota profit sharing in enterprises has many advantages: (1) It has the function of comprehensive treatment because fixed costs concern output, variety, quality, production cost, profit and other major technical and economic targets, thus forcing enterprises to conduct comprehensive economic accounting. (2) It can strengthen the basic management work of enterprises and accelerate the implementation of the economic responsibility system in enterprises. (3) Unlike the internal price method which uses two separate accounts, it is convenient and easy to apply and it needs only one account.

Currently although product prices and taxes are irrational, they cannot be changed drastically. Such being the case, adopting the above methods can place enterprises on the same starting line and encourage them to rely on their real ability to strive to increase economic results.

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ECONOMIC MANAGEMENT

WUHAN MAYOR COMMENTS ON ECONOMIC DEVELOPMENT

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[Text] Wuhan, 11 Mar (XINHUA)--Smoothed commodity flow and improved traffic have stood out as two major successes this central China city has achieved in its economic restructuring schemes since last year.

For the first time in more than 30 years, Wuhan's three million urban residents are able to enjoy fresh vegetables, pork and live fish in plentiful supply.

Moreover, with easy access to shops and street stalls, they can buy textiles and other industrial goods as well as specialities from other parts of the country, including Inner Mongolia and Tibet.

Wu Guanzheng, mayor of the city, attributed the brisk market activities to the streamlining of the wholesale system, establishment of more trading centers and markets, and opening the city to areas beyond Hubei Province.

Wuhan, straddling the Yangtze River and at the junction of a Chinese trunk line--the Beijing-Guangzhou Railway Line, used to be one of the country's major trading centers. Owing to over-strick management from both provincial and central government departments, however, wholesale dealers, at one time numbering 2,000, had shrunk to a mere 100 prior to the current reform.

The rigid control by higher authorities over purchase and marketing was such that the city had to pay some 100 million yuan each year as subsidies for rotten vegetables, Wu Guanzheng said in an interview with XINHUA here today.

Now, as a bold step in restructuring its urban economic, set-up Wuhan has set up 193 warehouses, 17 farm produce markets and 10 small industrial products markets to handle wholesale and retail businesses for both individuals and collectives.

The 90 trading centers, apart from arranging business deals, also provide such services as catering, lodging, storage, transport, communications and banking.

They maintain business ties with all the provinces, municipalities and autonomous regions on the mainland, Wu added.

Wuhan became a municipality under the central government in the early 1950's, and Li Xiannian, now president of the people's republic, once served as its mayor.

To bring into fuller play the city's role in organizing commodity production and circulation, the State Council last year granted Wuhan the decision-making power in economic affairs equal to that of a province while it still remains the capital of Hubei Province.

Other Chinese cities entitled to such status include Chongqing, Nanjing, xian, Shenyang, Dalian and Mudanjiang.

Some 100,000 peasants from other parts of China have elbowed their way into Muhan to engage in service trades, making life more convenient for local residents and themselves rich.

Wuhan Port, which used to handle only loading and unloading of cargoes for provincial departments, is now open to all ships run by the state, collectives and individuals. Its passenger and cargo shipment targets last year were topped by 16.2 and 10.6 percent, respectively, and profits rose by 39 percent.

The city now boasts 327 commercial ships and boats owned by individuals.

To boost water transport, Wuhan joined 12 other cities to form a joint river transport corporation. Operating along the Yangtze, the longest river in China, the facility has has deals with 26 provinces, municipalities and autonomous regions.

Last year, the city brought in 2,630 technical and managerial personnel from other parts of the country and invited some 30 foreign experts as factory advisors.

The factory director responsibility system, designed to give directors more power in production management and operation, has been applied in 1942 businesses, with resultant rises in output, profits and quality.

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ECONOMIC MANAGEMENT

HUNAN LEADER STRESSES INVIGORATING ENTERPRISES

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[Excerpts] Vice Governor Yu Haichao pointed out in a speech yesterday at the provincial economic work conference. The key to fulfilling this year's production tasks lies in straightening out the guiding thinking of the leaders at all levels, carrying out reforms in depth, and making shifts and transformations. While fulfilling the various national economic plans, we must strive to increase total industrial and agricultural output value by 5 billion yuan over last year, to raise output value of township enterprises by 50 percent, and to increase average peasant incomes by 50 yuan.

In order to truly invigorate the enterprises, the departments in charge must switch from directly organizing and directing the enterprises' production operations as in the past to focusing on taking care of the principles and policies, making all-round plans, achieving comprehensive balance and co-ordinated organization, and providing supervision and service. In accordance with the relevant regulations, we must return powers to the enterprises as soon as possible and help them to use their powers well.

As far as the enterprises are concerned, they can no longer, as in the past, depend on mandatory plans for production tasks, on state allocations for energy and raw materials, on the commercial departments to take care of the sales of products, and on the state to provide capital for innovation, transformation, and production development, or make their existence dependent on reduction of taxes and being allowed to retain profit. They must switch to finding new ways and tapping potentials within the enterprises and strive for improvement in economic results.

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ECONOMIC MANAGEMENT

FACTORY DIRECTOR RESPONSIBILITY SYSTEM EXPLAINED

Taiyuan JISHU JINGJI YU GUANLI YANJIU [THE STUDY OF TECHNO-ECONOMICS AND MANAGEMENT] in Chinese No 3, 20 Sep 84 pp 48-49

[Article by Li Yanhong [2621 7159 4767] and Li Ting [2621 7200]: "Plain Views On the Factory Director Responsibility System"]

[Text] The carrying out of the "factory director responsibility system" has been a major reform of the present system of business leadership. We believe that the focus of the problems and various views which have appeared in the reform has been on how to enable factory directors to enjoy production and administrative powers and to be able to prevent them from abusing these powers; how to enable staff member and worker congresses and party committees to better supervise factory directors, to be able to ensure that factory directors exercise their powers and to be able to create the conditions for them to develop their talents on a broader scale.

The "factory director responsibility system" which has been carried out gives factory directors considerably greater powers and should also be a restraint on these powers. This restraint is both external and internal. The external restraint is party discipline and national laws. Everyone must observe national laws and decrees or be punished according to them; if factory directors are communists, they must also be restrained by party organization discipline. The internal restraint is staff member and worker congresses and they are the strongest and most effective restraint

Staff member and worker congresses are enterprises' most powerful organizations and exercise the ownership rights for all staff members and workers. Staff member and worker congresses must not only participate in policy decisions on major problems such as business management and administration, the vital interests of concerned staff members and workers and major systems throughout the factory, but must also supervise factory directors and prevent them from abusing their powers. When the staff member and worker congress discovers that the factory director has used powers such as forming a cabinet by himself and has formed a clique for selfish purposes, excluded outsiders, attacked staff members and workers who hold different views, planned with relatives and friends or sought for personal gain, it can through majority agreement of staff members and workers dismiss him from his job whenever necessary or denounce him and withdraw and even discharge people who he has placed in various posts and positions.

It must be remembered that after carrying out the "factory director responsibility system" enabling staff member and worker congresses to be genuinely able to restrain factory directors from abusing their powers, the system of factory directors being appointed by higher organs should be gradually changed in most businesses to their being appointed, dismissed and advertised for by staff member and worker congresses. Only in this way can all staff members and workers in a business truly have the power to dismiss whenever necessary incompetent factory directors who abuse their powers and put factory directors under their supervision. Nearly 500 small and medium sized businesses owned by the whole people and collectively in the city of Wuhan democratically elected their factory directors in 1984 and achieved very good results. This shows that reforming the system of appointing and dismissing business leaders is not only essential but also possible. The major reason why China's economic system reform has achieved its present results is that it has combined powers, responsibilities and profits. Since higher organs are not directly responsible for the quality of business management, they should thus not directly interfere with most businesses on problems belonging to the business itself and especially on the major problem of selecting the factory director which relates to the business's prosperity and development, but can recommend a factory director to the business's staff member and worker congress and propose views for its reference. If factory directors are directly appointed by higher organs, it is likely to create a situation in which they are only responsible to the higher authority which appointed them and not to all the staff members and workers. A recent public opinion poll in a factory has shown how typical this view is; the staff members and workers were worried that after carrying out the factory director responsibility system, if the factory director was appointed from above and not democratically elected, he would only be responsible to the higher leadership and not to the masses and might act in violation of their wishes. This shows that if factory directors violate the wishes of all the staff members and workers and abuse their power and cannot then be promptly dismissed or punished, it can shake the ownership position in the business of all staff members and workers and cause staff member and worker congresses to become only decorations with undeserved reputations. A major indication of whether all of a business's staff members and workers have truly become its owners and have truly been able to master their own destiny is whether they have been able to put this "public servant", the factory director, under the supervision of all the staff members and workers. Due to the specific characteristics of a few large-scale enterprises and large national companies, their factory directors and managers can now still be directly appointed and dismissed by concerned higher departments or nominated by staff member and worker congresses and reported to higher organs for approval. This should be changed later at the appropriate opportunity to the factory directors and managers being appointed and dismissed by business staff member and worker congresses.

Since staff member and worker congresses have the power to appoint, dismiss and choose factory directors, how can the problem be solved of some people using staff member and worker congresses to dismiss at will factory directors who are good at management and administration and honest and upright in their ways because these people do not understand the needs of factory director work? We think that while carrying out the "factory director responsibility system", "business bankruptcy and reorganization laws" (abbreviated as "bankruptcy laws" and similarly hereinafter) should be formulated.

The view on "bankruptcy laws" proposed by Comrade Cao Enyuan (2580 1869 1270) of the State Council's Techno-Economics Research Center is that all enterprises that have independent business accounting and assume the sole responsibility for their own profits and losses which have non-policy losses for 2 consecutive years or whose net losses add up to 50-80 percent of the net value of their fixed assets should declare bankruptcy. They should then be given a 1-year reorganization period during which all staff members and workers without exception will receive unemployment relief funds progressively decreased month by month to 55 percent of their former basic wages. If they still have not turned their losses into profits, they should then be officially declared bankrupt. All staff members and workers alike should concentrate on training while waiting for employment opportunities and this naturally includes the factory director. Relief funds should be decreased at this time to 50 percent of their former basic wages. Based on strengthening the social relief system, the goal of implementing the "bankruptcy laws" is the need to firmly break the "iron ricebowl" and to gradually establish an economic mechanism which eliminates backwardness and encourages progress. Only if a business is a relatively independent commodity producer, is responsible for its own existence and promptly regulates and improves itself can the socialist economy be able to truly have an inherent vitality. We think that the goal of formulating "bankruptcy laws" is also the need for staff member and worker congresses to consider before dismissing a factory director whether this decision will risk bankruptcy, for staff members and workers to reduce their incomes, for leaders to be dismissed from their posts and for staff members and workers to study while unemployed in order to transform the factory and their occupations. Breaking the "iron ricebowls" of those people who do unskilled work but have the energy to get up to little tricks also allows them to pay the price for their own conduct. In this sense it enables staff member and worker congresses, party committees and factory directors to have a common destiny, and only by making concerted efforts, people in the same boat helping each other and ensuring that factory directors exercise their functions and powers normally can the other shore be reached.

We think that corresponding supplements should be made to the views proposed by Comrade Cao Enyuan on the system of "bankruptcy laws". 1. During an enterprise's bankruptcy and reorganization period, no staff members or workers should be permitted to transfer it so that talk of voluntary resignation does not enable those people who hinder factory director work to retreat. 2. Leaders of bankrupt enterprises should without exception be removed from office on the spot, after the factory is transformed be used at the discretion of the factory and can be demoted and their ability relied on instead of their work record. 3. Factory directors must not only assume political and economic responsibilities but should also assume the legal responsibility for the size of their losses, the amount of their duties and the length of their terms of office. 4. Bankrupt enterprises can be combined by court appointed clearing committee members using the method of transferring assets. While permitting local enterprises to use credit and enterprises from other parts of the country to use cash to pay the net value of a bankrupt enterprise's fixed assets, the said factory should be merged with the enterprise making the investment. The last point implies that expanding the jurisdiction of factory directors beyond the factory opens up an arena for them with a greater scope of activity.

Formulating "bankruptcy laws" to expand the scope of factory directors' work and encouraging their dedication will train a group of intelligent and capable factory directors and managers who are able to develop their abilities to the full, and what our present building of socialism lacks is precisely a group of this kind of entrepreneurs. Reaching the above goals by formulating "bankruptcy laws" will thus reform the system of appointing and dismissing business leaders.

In summary, in order for enterprises to do a good job of production management, they must carry out the "factory director responsibility system" but cannot have a one-sided understanding of it. This system must not only give factory directors full powers for routine production management and administration, but through supervision of factory directors by party discipline, national laws and staff member and worker congresses, stop the abuse of power and particularly stress developing the role of staff member and worker congresses, enabling all of an enterprise's staff members and workers to truly become its owners; it should moreover not neglect to provide effective guarantees that factory directors will exercise their functions and powers and create the conditions for them to develop their talents in broad areas. Full powers, supervision and guarantees form the whole substance of the "factory director responsibility system".

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ECONOMIC MANAGEMENT

GUANGXI CALLS FOR DEVELOPING TOWNSHIP ENTERPRISES

HK090619 Nanning Guangxi Regional Service in Mandarin 1130 GMT 8 Mar 85

[Excerpts] The Guangxi Regional CPC Committee and People's Government recently issued a circular calling on the region to speed up the development of township enterprises. The circular pointed out: The region has very good conditions and great potentials for developing these enterprises. There are many varieties of agriculture, sideline, and indigenous products, there are large reserves of non-ferrous metals; there are abundant resources in building materials and water conservancy; there is plenty of manpower; and there are convenient conditions for exporting. Hence there are great prospects for developing processing and mining, and also for developing small hydroelectric stations, building materials enterprises, and tertiary industry. The circular put forward four demands in order to speed up the development of these enterprises:

1. Concentrate on developing those production items that take advantage of local strong points and also meet market needs.
2. Attach importance to grasping the building of leadership groups at all levels. Through bringing democracy into play, the cooperative members and the staff and workers should select as enterprise leaders capable people who understand the business, know how to manage, and have the pioneering spirit. Incompetent cadres holding sinecures must be removed from such posts.
3. Strengthen the building of the technical force.
4. All sectors, trades, and departments should give the green light to developing township enterprises by providing assistance in capital, material, talent, technology, information, supply and marketing, and services.

The circular also laid down specific regulations on promoting multichannel handling of agricultural and sideline products, relaxing restrictions on mineral extraction by peasants, adopting a variety of ways to solve the problem of development capital, protecting the legitimate interests of township enterprises, encouraging the peasants to enter the towns to set up factories, shops, and workshops and operate tertiary industry, and providing labor services.

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ECONOMIC MANAGEMENT

**GANSU CONDUCTS ECONOMIC DISCIPLINE INSPECTION**

HK130304 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 11 Mar 85

[Text] By mid-February this year, the money involved in various cases of violation of discipline which had been verified in the province's financial and economic discipline inspection amounted to some 16 million yuan, of which some 9 million yuan had been handled.

As seen from the trial inspection in the preceding stage, most localities, departments, and units have examined their own problems and promptly solved and corrected them.

The provincial Mechanical Industry General Company conducted trial inspection first in 37 enterprises and institutions under it and then reinspected them one by one. All the 1.7 million yuan involved in cases in violation of discipline were handled promptly. All the money used as costs were deducted from the costs of an enterprise and all accounts were classified according to relevant stipulations. Those enterprises which evaded taxes paid taxes retroactively. All secreted money of an enterprise should be returned to its treasury. If a factory has issued uniforms to their staff and workers at its discretion, the money for the uniforms should be paid by the staff and workers themselves or by using its award foundations.

In order to implement in depth the spirit of a series of instructions issued by the State Council, the Ministry of Finance, the provincial CPC Committee, and the provincial government on resolutely correcting new malpractices and to properly conduct the current financial and economic discipline inspection from beginning to end, the provincial Finance Department decided that responsible departments must conduct combined inspection and spot checks on units in which reinspections have been conducted. Those units which have not yet conducted inspections or have conducted inspections in a perfunctory manner must conduct inspections again and timely solve and correct the problems which have been discovered so that orders and prohibitions can be enforced genuinely.

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ECONOMIC MANAGEMENT

BRIEFS

PROVINCE'S ECONOMIC TASKS--Vice Governor Yu Haichao stressed when addressing the provincial economic work conference yesterday: This year the government at all levels and all departments must strengthen leadership over industrial and communications production, focus on the key points, and seriously do a good job in the following tasks: Organize increased output of products that sell well and meet market needs; vigorously develop township enterprises; increase production and practice economy in energy and transport; promote technological progress in enterprises; complete the enterprise consolidation task, and do well in reducing deficits and increasing surpluses. It is also necessary to develop horizontal economic ties and promote reorganization and combination of enterprises. We must step up economic ties with fraternal provinces and municipalities, and between the different enterprises within the province, and develop long-term cooperation in technology, capital, talent, information, and scientific research. [Excerpts] [Changsha Hunan Provincial Service in Mandarin 1100 GMT 9 Mar 85 HK]

CSO: 4006/462

FINANCE AND BANKING

SECOND STEP IN SUBSTITUTING TAX PAYMENT FOR PROFIT DELIVERY

Shanghai SHANGHAI KUAIJI [SHANGHAI ACCOUNTING] in Chinese, No 8, 25 Aug 84  
pp 22-26

[Article by Wang Shuigen [3769 3055 2704] of the Shanghai Municipal Finance Office and Cai Minglin [5591 2494 7792] of the Municipal Financial Scientific Research Institute: "On the Second Step of Reform in the Substitution of Tax Payment for Profit Delivery"]

[Text] (1) The substitution of tax payment for profit delivery that we are promoting is an important policy decision of the CPC Central Committee and the State Council. It is a significant breakthrough in China's distribution system and therefore will have a great effect on the reform of China's municipal economic system and the development of the national economy.

The shortcoming of "all eating from the common pot" generally exists in an earnest and step by step restructuring of the urban economy, and is the main topic in the current restructuring of the urban economic system. Experience has proved that the system of substituting taxes with profits that is being implemented in state-run enterprises had even greater advantages compared to other methods toward solving the problem of "all eating from the common pot." Last year, a total of 28,100 state-run enterprises implemented the second step of reform in substituting tax payment for profit delivery and realized 47.33 billion yuan in profits, an increase of 4.22 billion yuan compared with 1982. The state received 61.8 percent of this increase, the enterprises earned 24.9 percent and workers earned 13.3 percent. We achieved the principle in the distribution of increased revenue of the state receiving the lion's share, the enterprises receiving a medium-sized share and the individuals receiving a smaller share.

On this basis, we are currently faced with the second step of reform in the substitution of tax payment for profit delivery. The restructuring of the economic system which is pushing forward with irresistible force has created favorable conditions for further settling the distribution relationship between the state and enterprises, on "imposing neither a maximum nor a minimum limit" on bonuses, and on further expanding the decision making power of enterprises by implementing the responsibility system of factory directors and in the ten respects of the state council. At the same time it has also created a premise for establishing different forms of contract responsibility

systems within enterprises. The leading comrades of the State Council have pointed out that the second step of reform "can become the key to the restructuring of the urban economic system." Our idea is that it is like a key, that is to say that it is the premise and condition for the restructuring of the urban economic system and is the key link in all reforms. In short, it is significant in four respects:

First, using a decree to fix the relationship of distribution between the state and enterprises enables the state's revenue to experience steady growth along with the development of the economy.

In looking back at the road taken in the restructuring of the financial system of enterprises, there have been three stages; we developed from implementing an enterprise fund in 1978 to implementing the method of many forms of left-over profits and assuming responsibility for profits and losses, and we then entered the third stage in 1983, i.e., the first stage of the substitution of tax payment for profit delivery--the method of "substituting profit delivery with taxes and allowing the coexistence of tax payment and profit delivery." This step is one step further along than the other two steps, and its special feature is that it substitutes the method of profit delivery for the method of tax revenue. It also uses legal forms to settle the relationship of distribution between the state and enterprises, enables the state's revenue to experience steady growth along with the development of the economy and ensures the implementation of the principle of "the state receiving a lion's share, enterprises receiving a medium-sized portion and individuals receiving a smaller portion." With regard to Shanghai, the income that the state earned from increased profits also amounted to two-thirds of the total. Currently the second step is moving forward and developing on the basis of the first step; this will help ensure the state's revenue and play a proper role in achieving a fundamental improvement in the country's financial situation.

Second, as enterprises gain more benefits from their newly increased profits, they will strengthen their driving force for improving their management and administration and enhancing economic results.

Socialist enterprises are fairly independent commodity producers and managers. Unifying responsibility, authority and profits is beneficial toward arousing the enthusiasm of production and management. After the second step of reform in the substitution of tax payment for profit delivery, we will be better able to ensure reasonable distribution between the state, enterprises and workers, and will enable enterprises to both exert pressure on the state's economic responsibility and to have a driving force for the economic results they attain after strengthening their management. We feel that the second step of reform has an important spirit: it must push enterprises to draw on their reserve strength and encourage enterprises to increase output and revenue. Because enterprises will be more agile after the distribution between the state and enterprises is fixed, we can implement many different kinds of economic responsibility systems between enterprises and their workshops, teams and individuals. We will then be able to truly break through egalitarianism in distribution and thus give full play to the vitality of enterprises.

Third, through the regulation of tax levers we can settle the contradiction brought about by current irrational prices, and cause enterprises, under the circumstances that the differences in their prices have been improved, to start to be competitive and help encourage the more advanced and urge the backward.

Fourth, enterprises will no longer turn over their profits in accordance with administrative subordinate relationships, thus helping to solve in a rational manner the economic relationships between vertical and horizontal authorities and between central and local authorities.

The second step of reform in the substitution of tax payment for profit delivery will cause enterprises with regard to their economic results to gradually shed vertical and horizontal subordinate relationships. Fulfilling their obligation to the central government and localities to pay taxes will help enterprises to truly be handed the deserved authority for management and administration, to cast off administrative fetters and help them truly become fairly independent economic entities. At the same time we will create favorable conditions for improving the classification of the financial system and will basically settle the relationship of distribution between the Central government and localities. As for the problem of specifically dividing up revenue, we must decide this based on the state's needs toward macroeconomic policy decisions and the political and economic tasks borne by the central and local authorities.

(2) The second step of reform in the substitution of tax payment for profit delivery not only further touches upon the relationship of distribution between the state and enterprises but also touches upon the relationship of distribution between central and local authorities, and thus everybody pays close attention to it. We understand that the overall spirit of the reform this time is to proceed from reality and to appropriately raise the proportion of the product tax in the total tax revenue; adopt the method of a rolling account and fix the relationship of distribution between the state and enterprises in order to ensure the vested interests of enterprises; to encourage enterprises to draw on their reserves by stressing "the making of concessions after the fact, not beforehand" in the distribution relationship between the state and enterprises; and to relax policies and expand the scope of small enterprises. These are the bases for the design of the plan.

The second step of reform in the substitution of tax payment for profit delivery involves 11 different taxes, 9 of which are levied before the income tax and 1 of which is levied afterward. These taxes are:

1. Product tax and increment tax: these two taxes are derived from the former industrial and commercial tax. By levying a product tax and increment tax the state can appropriately regulate the profit differential income of enterprises which is caused by their irrational prices; can encourage the advanced products and eliminate the backward products; and can apply the effect of regulating and directing production and restricting blind production and overlapping construction by levying a heavy tax on products which are profitable and in abundant supply and levying a light tax on products which are not very profitable and that are in short supply. In the readjustment of the product tax and

increment tax this time, of 391 types of products, the tax rate is raised for 88 products and lowered for 62. The proportion of product tax revenue in all taxes and profits has risen from 39 percent to 46 percent. Based on this survey, the tax burden on Shanghai's local industries will increase to 5.84 billion yuan, 14 percent of the total tax burden. Certainly, when readjusting the tax burden, the state must still take into account the actual situation of unbalanced production at different areas and the actual feasibility of increasing the tax burden of collective enterprises. Thus, in essence the tax rate can be set only at the middle level or low-to-middle of the enterprises' sales profit margins so as to avoid the inability of a great number of enterprises in the interior of the country and collective enterprises to assume a heavy tax burden because the tax rate has been set too high.

2. Salt tax: the tax rate for a ton of salt will not be readjusted this time.

3. Business tax: this is also derived from the original industrial and commercial tax. It is levied from commercial, service, transportation and financial enterprises. Its tax rate will remain at its former level and will not be readjusted this time.

4. Resources tax: this is a new tax. By levying a resources tax, the grade differential income of enterprises, which is caused by the difference in their resource structure and conditions for development, is returned to the state. In this reform, a resource tax is levied on five different products, i.e., coal, oil, natural gas, ferrous metals and nonferrous metals. The tax rates are designed in separate categories according to the sales profit rate of taxable products. No tax is levied on products with a sales profit rate below 12 percent, a 50 percent tax is levied on those products with a sales profit rate between 12 percent and 20 percent, a 60 percent tax is levied on products with a sales profit rate between 20 percent and 25 percent and a 70 percent tax is levied on those products with a sales profit rate over 25 percent. According to the survey, 764 of 2,339 enterprises, 32.7 percent, have reached the starting point of taxation. In Shanghai only the Meishan engineering headquarters can be categorized as a levying target that has not reached the starting point of taxation.

5. Three local taxes have been resumed and an urban maintenance and construction tax has been newly established. These local taxes will be the local finance's fixed source of revenue and will create conditions for the financial system of separated taxation.

The three local taxes are the house property tax, a land usage tax and tax on the use of vehicles and ships. In Shanghai the taxes are: 60 yuan for every ton by transport vehicle, 240 yuan per bus and only 6 yuan per ship. The house property tax is collected according to 1.2 percent of the value of the building and structure, 1.2-1.5 yuan is levied per square meter of land, and these three local taxes can yield 100 million yuan.

All cities and county towns are subject to the urban maintenance and construction tax, and it is collected directly from enterprises at a rate set in a fixed ratio to the produce tax, increment tax and business tax which the

enterprises pay. A 7 percent tax is levied according to the aforementioned total amount of tax paid by enterprises in those cities approved by the State Council, and a 5 percent tax is levied on county towns and county-level towns. According to this survey, Shanghai can levy 320 million yuan in urban maintenance and construction taxes.

Above are the nine different taxes collected before income tax.

6. Income tax: enterprises pay income tax on their profits leftover after payment of all aforementioned taxes. The income tax rate for large and medium-sized state-run industrial enterprises is 55 percent. Small enterprises pay this tax according to the newly designed 8-grade progressive tax rate for that part of their income that exceeds a specific taxable amount.

7. Regulating tax: this is a tax paid after income tax. After large and medium-sized state-run industrial enterprises pay their income tax, a tax is levied when they are in excess of the rational portion of retained profits for 1983, and the rate is determined according to the taxable amount of income. From the viewpoint of the entire nation, after the income tax is levied, the proportion of these nine taxes of all taxes and profits totals 79.6 percent. Of the remaining 20.4 percent, 10.3 percent is the leftover profits kept by the enterprises, and only 10.1 percent is subject to the regulating tax which is paid to the state. According to these calculations, the regulating tax is 22 percent on the average for industrial enterprises throughout the nation and 28.5 percent for Shanghai's local state-run industries. After paying the income tax, when enterprises again pay the regulating tax determined by the state, toward the portion of the increased profit in excess of the base period profit, the rate of the regulating tax is reduced by 70 percent by being fixed rather than by being linked to the amount of profits, thereby arousing the enthusiasm of enterprises for increasing production and revenue.

Small state-run enterprises do not pay the regulating tax. Enterprises that have more taxes after the payment of income tax, however, must pay a fixed contracting fee to the state. Because Shanghai's small local industrial enterprises do not have much extra, they do not pay a contracting fee.

No income tax is levied on enterprises that operate at a loss or that have meager profits (meaning those enterprises whose taxable incomes are short of the rational portion of the retained profit after the payment of a product tax and local taxes). The method of being responsible for losses and being responsible for meager losses is implemented instead.

(3) Some comrades feel that the changes in the second step are no greater than the changes in the first step. We feel that we must make a specific analysis. The aforementioned plan contains four significant reforms compared to the first step of reform in the substitution of tax payment for profit delivery. First, it has divided the original industrial and commercial tax into three taxes and has enabled the effect of each tax to be brought into play. Second, resuming and levying four local taxes will help improve central and local financial systems. Third, because of the aforementioned reforms,

the amount of profit subject to the regulating tax is reduced, and for those enterprises that pay the regulating tax, the base is reduced for the increased portion of revenue, and the tax rate is fixed instead of being linked to the amount of profit. This helps further arouse the enthusiasm of enterprises to have a free hand in developing production and striving to enhance economic results. Fourth, we are relaxing policies and on one hand are raising the standards of small enterprises and expanding the scope of small enterprises and on the other hand are raising the grade differential applicable for exceeding the progressive tax rate. This further benefits small enterprises and helps further stimulate the economy and convenience the livelihood of the people.

Based on the aforementioned analysis, the overall advantages of the second step of reform are that it seeks truth from fact, proceeds from reality, and compared to the first step of reform, it has made significant progress, the risks are small, the methods simple and it is easy for localities and enterprises to accept. Certainly, it is the same as any new thing; the plan cannot be completely perfect as soon as it is started, and it needs to be continuously developed and perfected through experience. Recently, we invited the concerned comrades from scientific research institutions, institutes of higher learning, enterprises and business departments and organized a discussion; people felt that there were some problems with regard to the plan itself that needed to be studied further. We now propose the following for joint discussion.

1. The depth of the reform is still insufficient and a few fairly large limitations are particularly reflected with regard to encouraging the advanced and urging the backward. The year 1982 is considered to be the base in determining the proportion of leftover profits in the first step of the substitution of tax payments for profit delivery, and 1983 is considered to be the base for the second step of reform. Thus, the irrational phenomena of an imbalance of good and bad times created in the first step of reform continues to exist. It is more difficult for those enterprises which originally had competent management and administration, high profit bases and low costs to further increase their production and revenue, and the benefits that they gain in the second step of reform are less than those obtained by enterprises who have substandard management and administration, a low profit base and high costs. In addition, the contradiction among enterprises caused by the irrational base of retained profits will continue to exist and could even expand. After objectively protecting the backward, this undoubtedly will harm the rapid improvement of economic results. In another respect, even though levying a regulating tax by using one rate for one enterprise will lower proportions, we will still be turning profits over to the state. Therefore, as we get deeper and deeper into each aspect of reform, we can gradually complete the process of substituting profits with taxes.

2. The problem of levying a tax on funds from enterprises which use state funds has yet to be solved. This problem has been debated for quite a while; it was already an issue during the first step of the substitution of tax payment for profit delivery, and it is certainly not an exception this time either. We feel that in both theory and practice, levying a tax on funds will have a significant effect on economizing the use of funds and improving

the results of investment. Continuing to levy the tax can give strength to the implementation of the substitution of tax payment for profit delivery and will also help to centralize financial funds. Currently, the profit margin on the nation's fixed assets is fairly low and the results are substandard.

These actual circumstances require our consideration, yet economic results improve with the development of the economy and favorable conditions are created for levying a tax on funds. Thus, even though this second step of reform has already determined that this tax will not be levied, we feel that this problem still must be studied further.

3. Concerning the problem of price readjustments affecting the after-tax profit retained by enterprises, this maintains the methods of the first step, and the state will acknowledge reduced taxes on products approved by the State Council. Price readjustments will have a considerable impact on coastal areas, and this is a prominent problem. Enterprises in these areas for the most part are processing enterprises which have to bring in raw and processed materials and fuel from their places of production. The current trend is for prices of manufactured goods, mineral products, raw and processed materials and fuel to increase by a great deal, and conversely, for the prices of products of the processing industry to decline. This trend is beneficial to the industry's internal structure in the distribution of economic results. Yet from the viewpoint of the current quality of enterprises, generally speaking, the industry definitely has a problem if it is required to fully digest problems with regard to pricing. Shanghai's industrial departments have made a suggestion for this, and they hope that the state will appropriately expand and extend the scope of the acknowledgement of the enterprises' profits caused by readjusted prices. This suggestion can serve as a reference. Yet, we are afraid it is not realistic to completely turnover the financial burden to the state, and the current financial situation is also difficult to endure. The state must certainly give overall consideration to how in the end we are going to handle this matter. This after all is a complex problem that concerns many broad aspects, and it needs to be explored.

4. The regulations for the repayment of loans for all types of fixed assets are not suited to the current needs of technological transformations. The method (plan) of the second step of the substitution of tax payment for profit delivery stipulates that when applying for loans for capital construction and technological measures, enterprises must have 10-30 percent of the funds themselves and when repaying the loans must first use the various types of special funds (including funds for renewal and transformation and the production development fund), and if they do not, they must use their newly increased profits before the income tax payment which are obtained from the projects in which the loans are invested. Although this method is a little more severe than the first step of reform, it has a restraining effect on the blind expansion of the investment of fixed assets. However, new policies and regulations must be compatible with the spirit of the Party's decision of the Central Committee to further open up the 14 coastal cities to the outside world. Especially in Shanghai, the task of transforming old enterprises is serious and a great deal of funds are needed, but under the demands of further opening up, we must import even more technology so as to accelerate the pace

of transforming old equipment and give play to the positive role of key cities. Thus, it is worthwhile to inquire into the pros and cons. From the viewpoint of Shanghai's repayment situation in the past few years, the amount of repayment in the past 4 years does not exceed 2 percent of the total profit of industrial enterprises and remains within 3 percent in 1983. This explains that the proportion of the amount of loans in the total profit is not large. We must adopt measures in every respect and promote the situation. We feel that we must differentiate in our treatment, handle affairs according to actual circumstances, and toward these projects we can adopt the repayment method of "one limit" under the premise of not reducing the original profit margin, and some projects can even be planned in a unified manner by offices of municipal committees, and this helps promote high social economic results.

The second step of reform in the substitution of tax payment for profit delivery that confronts us in an important matter in our economic livelihood. In line with the spirit of the entire nation as a chess game, we must submit to the overall situation, abide by the unified decrees of the State Council and carry out the reform step by step and with leadership. In doing this, we must pay attention to probing into the relationship of distribution between the state and enterprises. As for the problem relating to establishing local classified finances, there is no need to go into details.

12437  
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## FINANCE AND BANKING

### ESSENTIAL CONDITIONS FOR HOUSING DISCUSSED

Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 41, 25 Aug 84 pp 21-23, 31

[Article by Liu Mingxin [0491 2494 0207]: "A Few Essential Conditions of Housing as Merchandise"]

[Text] Since 1949, China has basically used the "supply system" method to solve the housing problem of urban residents. Because China does not consider the cost of housing construction as well as its value, the result is that the state is getting no return on its investment in housing; this has hindered the reproduction of housing, and the road gets more and more narrow. Thus, in studying how to realize housing as merchandise and open up a new road to housing construction, problems such as improving the current severe shortage of housing and exploring reforms in housing construction are all extremely significant. This essay will attempt to probe into the conditions of housing as merchandise.

#### (1) We Must Have Funds for Building Housing

Based on the development plan of China's national economy, the level of control of the population increase and the trend of development of the household structure, the strategic goals of household construction for the end of the century that have been drawn up by the relevant departments are: basically achieve a level of one residence for every urban household, and a living area of 8 square meters per resident, or a total of approximately 14.5-16 square meters of building area. In accord with the 1982 statistic of more than 140 million urban residents in the entire country, it is estimated that by 2000 the urban population will increase by more than 110 million people. Calculating the average of 8 square meters of living space for the increased population, and adding this to the additional living area of the original population, we must add a total of 1.411 billion square meters of living area, amounting to a total of 2.565 billion square meters of building area. After adding in the investment for transforming old urban residences as well as the investment for building complete facilities for livelihood in the new residential areas, it is estimated that within 20 years we must invest a total of more than 5 trillion yuan, or an average of 25 billion yuan per year. This causes difficulties with regard to our financial situation. Using 1982--the year with the greatest investment in housing since liberation--as an example: that year the

state expended a tremendous effort toward investment in housing and invested 14.8 billion yuan. With regard to housing as a proportion of all capital construction investment: it was 14.8 percent of all capital construction investment in 1979, 20 percent in 1980, 25.1 percent in 1981 and 25.5 percent in 1982. This proportion of investment in housing is already fairly high. Thus, for the past few years, the state could only use a bit more than 10 billion yuan per year (for instance 10.8 billion yuan in 1983). With the development in economic construction, even if we can gradually increase investment in housing in the next few years, we will be unable to attain the necessary figure of an average of 25 billion yuan per year. How will we make up this gap? This is one of the problems that we will encounter in using housing as a merchandise and in accelerating the pace of development in housing construction.

One special feature of the form of investment management that China implements for urban housing construction is that the number of houses that the state can build depends on the amount of money it can squeeze out, and it can only take one step at a time. This is mainly caused by the irrational channels used to raise construction funds for housing. Currently there are the following two sources of construction funds for housing: (1) a portion of the funds are taken by the state from what is accumulated by each sector of the national economy, and some funds are raised from local finances and are invested in housing construction; (2) funds raised by enterprises of the system of ownership of the entire people from their profits left over after taxes. Funds for investment in the construction of residences that are raised by each sector of the national economy or that are raised by local finances depend on the unified assignment of investment for capital construction projects; there is no independent housing development plan or long-term plan and there is no special channel for investment in housing construction. Sometimes, in order to protect key capital construction projects, the state reduces the investment of localities that is usually earmarked for capital construction projects, and this includes reductions in investment in housing construction. With regard to the funds that are raised by the enterprises themselves, currently the funds raised by enterprises that are used for building already account for a fairly large proportion of all housing construction, and if in the future we require a continued increase in funds raised by enterprises that are used for housing construction, I am afraid that there will certainly be difficulties.

So, how do we extensively open up new sources of building funds? First, we must establish a special urban housing development fund and change the method of considering and arranging housing construction as an auxiliary capital construction project. In other words, the management of independently transferred housing construction funds should be classified in a unified manner by the relevant state housing construction departments so that they are not affected by changes in the state capital construction investment plan. Except for housing construction being allocated by the state once for newly established units, enterprises of the system of ownership of the entire people on the basis of establishing five types of funds for enterprises can again establish housing development funds with their profits left over after taxes. Administrative departments and institutions according to the total wages of workers can then collect a certain proportion of money with which to establish a similar fund; collective ownership enterprises can use the money left over

after taxes to establish a housing development fund; each city's local government can also allocate funds from local finances for housing development. In addition, an even more important path is to implement housing construction as merchandise; specially managed housing departments can sell well-constructed housing to individuals at a price determined according to quality and so quickly get a return on investment and accelerate the process of the reproduction of housing construction. Facts have already proved that we must realize the value of housing as a commodity and realize a return on our investment, and to a great degree this depends on housing as merchandise. This can basically solve the problem of the investment of housing construction and is a future direction for development.

## (2) We Must Draw Up Rational Prices for Housing as Merchandise

Because we are carrying out housing as merchandise under the conditions of low wages, thus, we must carry out an earnest study of the problems of housing pricing policies. If the prices are set high, it is possible that no one will be able to make a purchase; if the prices are set low, we will not get a return on our investment. In short, however, housing prices that are set a little lower can be beneficial to the development of housing as merchandise.

First, we must reduce housing costs as much as possible and thereby lower the building costs of housing. For this reason, we must strengthen the management of housing construction and cut down expenditures on different building materials, labor and management. In building residences, we must accept bids for construction, implement a contract system and a system of payment partly in kind and partly in cash for investment and so reduce the period of construction and reduce costs.

Second, we must carry out an analysis of the cost composition of housing and correctly determine reasonable housing costs: this is the basis for setting reasonable housing prices. In making calculations according to the sales price of housing as merchandise, housing prices must be formed from the two parts of the complete cost composition plus profits. The complete cost composition must not only consider the cost of the land, i.e., all materials, labor and machinery costs, but must also consider shared costs in the building process of landscaping, demolition and moving, as well as the joint construction costs and communal installation fees, etc. This type of method of calculating the complete cost of housing as merchandise is obviously unable to be borne by China's average urban resident at this time. Thus, we can currently only implement an incomplete method of calculating the cost of housing as merchandise, and should only consider the cost of the land. With regard to the problem of planning the cost of housing property, when the state is selling housing to individuals, the ownership of the residence itself is transferred, and the individual has ownership of the residence, yet only the right of use is transferred for the land that the residence covers, and it cannot be purchased along with the land. Even if the levying of the land use fees is a one time expenditure of the state, the fees cannot be listed once as a housing cost. Compensation for levying land use fees is a land use fee that can only be paid gradually in installments by the enterprises or individuals purchasing the residence, and can then be made up. With regard to costs for land

construction, underground networks of pipes and other municipal construction investment, when levying land use fees in the future, we must solve the problem of investment categorized as land capital investment carried out by local governments, and we must not list this as a housing cost.

Third, we must set reasonable housing prices that are a little lower, and for the time being we must also dispense with the necessary contract tax, property tax, etc., that occur when a residence is being purchased.

These measures should be carried out to make prices a little more reasonable and are helpful in attracting consumers to purchase housing.

Furthermore, the prices of housing as merchandise, in regard to what they mainly encompass, according to the principle of commodities management must include both the selling price of the residence as a commodity and the price of renting the residence. Therefore, in setting reasonable prices we not only must set equally reasonable prices for purchasing and renting, but we must also ensure that these are both balanced, that they have a reasonable price parity relationship, and cause people to feel that they are not losing out in purchasing a residence, to the point that they will consider it. Comrade Deng Xiaoping pointed out: after housing is sold, I am afraid that rents will have to be readjusted. We must integrate housing prices and readjust rent and cause people to consider purchasing a residence. From the viewpoint of our current situation, the low rent system that we are carrying out is detrimental to encouraging people to purchase a residence. If people spend a small sum of money to rent state housing, why should they spend a great deal of money to purchase a residence? The purchasers need only feel that they are not losing out when making a comparison of the cost of rent and the cost of purchasing housing as merchandise, and they will then enthusiastically purchase.

For this reason, we must reform the current low rent system, appropriately raise rent and cause rent and housing prices to be more or less balanced. The first step is to gradually change from the state paying subsidies originally because rent is insufficient to cover housing repair and management costs to a system whereby people take care of everything themselves through their rent, and "use rent to support the residence." Currently there are many comrades who advocate "changing from dark subsidies to bright subsidies," i.e., taking the subsidies that the state uses for repair and management costs of housing and adding these subsidies to the wages of every worker, and then raising rents by a corresponding level. Although, theoretically speaking, the state normally subsidizes the rent of workers, it also collects rent after it has been adjusted, and the two can be correspondingly lowered. In fact, this is an extremely complex process. The state pays out a lump sum of money, and because there is no unified rent control, the channels for collecting rent are fairly decentralized, and the public housing administered by many cities accounts for only about 10 percent of all housing, the large portion being independently managed by units and systems. The standards for collecting rent are also not very unified; some collect only a few fen per square meter, and even if rent is collected after rent is adjusted, it will be difficult to recover in full the total amount of subsidies expended. If we generally "change from dark subsidies to bright subsidies," and if we add the subsidies originally intended for maintenance to workers' wages, this will instead

increase the expenditures of the state. Therefore, under the current situation of not yet having reformed the wage system and not allowing the state to increase its financial burden, we can only consider appropriately readjusting the standards for collecting rent.

The second step is to gradually implement an interim commodities rent system. In view of the fairly low income level of residents, we should adopt different policies for low, medium and high income households. I propose the following: we should set the rent according to five expenses (depreciation, maintenance, management, taxes and interest) for medium income households and eight expenses (the five expenses above plus profits, land use fee and insurance) for high income households. We should set rent according to three expenses (depreciation, maintenance and management fees) for low income households. This way, we will not only realize simple reproduction of housing in "using rent to support the residence," but we can also realize housing commodities management for rent that is profitable and promote the expanded reproduction of housing.

### (3) We Must Find an Appropriate Solution to the Problem of the Purchasing Power of Urban Residents

Under the circumstances of the low wage system being implemented in China, whether or not urban residents have the capability to purchase housing is a problem about which people have expressed great concern. Since 1982 when the State Council decided to subsidize sales on a trial basis in Changzhou, Zhengzhou, Shashi and Siping, the masses have been extremely receptive and have gained some experience. The specific methods are to sell residences to individuals, the localities or enterprises subsidize two-thirds of the cost and the individual then pays one-third. The individual can make the payment in a lump sum or can take out a loan and pay in installments. Through the experiment, these cities one after the other sold 1,797 residences, invested a total of 14 million yuan, have already received 2.7 million yuan in return, and the funds received for selling residences are being used for the construction of residences. The cities have preliminarily realized a cyclical turnover of some of their funds. Recently, leading comrades of the Central Committee asked that we further promote the method of subsidizing the sales of residences to individuals, and that in promoting we continuously summarize our experiences and continuously improve. According to our understanding, the Ministry of Urban and Rural Construction and Environmental Protection is making arrangements to further broaden the experiment, and this year has already decided on 60 cities in 22 provinces, municipalities and autonomous regions that will subsidize the purchase of residences on a trial basis. Carrying out the method of subsidizing the sales of residences first of all requires that the individual can pay one-third of the purchasing price and second of all requires that localities and enterprises have a sum of money with which to subsidize two-thirds of the purchasing price. Neither of these two conditions can be dispensed with.

From the viewpoint of the condition of the enterprise, with the expanded autonomy of the management and administration of enterprises, they have even greater control of the allocations of profits left over after taxes. Thus, they can use both their welfare funds and a portion of the housing development

funds that they have established to subsidize the purchase of residences by workers. These subsidies paid out by enterprises for purchasing houses are the equivalent of investing in housing construction, and they are just as significant as direct investment in construction by enterprises with funds that they have raised themselves. Furthermore, this is also in accord with the principle of the exchange of commodities of equal value, and the state and local government will recover the entire price of investment. This is beneficial to giving and getting a return on investment funds in housing construction, and it ensures a normal cycle.

Currently a few problems still exist with regard to the ability of urban residents to purchase housing. Because most of those who need to purchase housing are young, their income is limited, and they cannot come up with a great sum of money just like that. Thus, in order to enable individuals to possess the capability to purchase housing, savings for individuals to purchase housing that the banks are handling may yet be regarded as an effective way. This method is used internationally, for example, Singapore is carrying out a method of mandatory savings which stipulates that a certain percentage be taken from a person's monthly wages to be used to set up a "central public fund" and provide funds for the purchase of housing. Based on our circumstances, we must adopt a policy to encourage residents to convert their current short-term bank savings into long-term housing savings. Another way is to grant low-interest loans to individuals purchasing residences and implement the method of paying for the residence in installments. Except for the portion of cash that individuals use to purchase housing, the rest of the funds can be paid back to the bank in installments, with the repayment period not to exceed 20 years.

#### (4) We Must Work Out the Relevant Laws and Regulations

In opening up the market of housing as merchandise, we must rely on the state to draw up the appropriate incentive policies, but also to draw up a few protective laws and regulations and so help arouse the enthusiasm of individuals who purchase housing. For example, through legislative forms, we can protect individuals by giving them ownership of the property and the right of inheritance. Also, because we opened up the housing merchandise market under socialist conditions, it is a market with limitations, and do not permit completely significant "unrestrained transactions" involving old property. For a fairly long time in the future we must still implement the policy of state monopolies for sales of a planned supply nature, and we must have restrictions under certain conditions for the targets for purchasing residences. We must continue to emphasize taking care of the housing of families with material difficulties, otherwise, if the government and enterprises spend a great deal of money but do not use it to solve the problems of households with material difficulties, then they are not complying with out ultimate goal in opening up the housing merchandise market. Thus, the laws and regulations that we draw up must have these restrictions, for example, we should set a limit for the greatest amount of space a citizen can purchase, and we will usually allow people to use two to three times, or when appropriate, even a little more housing area than the average household, and we must strictly forbid the fraudulent purchase of property in order to engage in capitalist management.

and property speculation activities. Furthermore, we must also draw up the relevant regulations that prevent individuals from transferring the possession of their property, from not using management as their goal and from renting extra rooms. For example, property that is transferred at more than the one-third price that the original owner payed must without exception be handed over to the state, and we should not allow any profits to be made.

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FINANCE AND BANKING

**EFFORT TO STOP ILLEGAL SALE OF TRAIN TICKETS URGED**

Beijing CONGRERN RIBAO in Chinese 11 Nov 84 p 1

[Report: "Resolve to Stop the Wrong Way of Increasing Prices and Charging Fees Arbitrarily--Ministry of Railways Issues Circular to Undertake An Earnest and Intense Investigation; Some People Take Advantage of Tight Railway Transportation to Resell Train Tickets for Profits--Leading Comrades of the Party Central Committee Point Out the Need to Jointly Deal With the Black Sheep"]

[Text] The Ministry of Railways has recently issued a circular requesting that the entire system resolves to stop the wrong way of arbitrary increase of prices and charging of fees.

This circular particularly stresses the need to strengthen management of the sale of passenger tickets, forbid arbitrary increase of the level of charges and strictly stop railway staff workers from taking advantage of their jobs to link up with unlawful elements in society to resell passenger tickets and seat numbers and seek exorbitant profits.

This circular indicates that public security departments at all levels must regard investigating and dealing with unlawful elements who resell passengers tickets and seat numbers as part of their regular duties. Once something is found it must be pursued to the end. Those who are of an adverse nature and with serious circumstances must be severely punished in accordance with the law.

The circular demands that all railway bureaus must adopt effective measures, use every means to give good service to the broad masses of passengers and cargo owners, solve the problems of difficulties in purchasing tickets, riding trains and shipping goods. For a certain service performed, charges must be reasonable and legitimate, and no excuse should be allowed to seek high fees. With the overcrowding of passenger trains, all railway bureaus should actively provide benches for excess passengers but should not permit anyone taking advantage of this to seek additional charges. Additional berths and sale of end-seats in sleeping cars, operating a hotel business by using lower passenger train decks and stopover passenger cars or normal passenger transport service facilities such as waiting rooms and ticket offices must be strictly forbidden.

The circular also points out that railway collective enterprises which operate transport services as agents by handling the dispatch and collection of luggage and goods for passengers and cargo owners through the railways must uphold the principle of voluntary entrustment and reasonable charges. They are not allowed to use coercion or covert coercion and they are not allowed to set arbitrary standards of charges or covertly extort and blackmail.

This correspondent has learned from the Ministry of Railways today that a minority of people recently took advantage of the tight situation of railway transportation and illegally resold train tickets for profits. Leading comrades of the Party Central Committee are extremely concerned with this and have instructed that this must be exposed to the public to safeguard the vital interests of the broad masses of the people.

In their instructions, leading comrades of the Party Central Committee point out that all matters concerning the vital interests of the broad masses of the people should be revealed to the public in order to mobilize the people to jointly deal with the black sheep among our contingents. Doing this openly has the advantage of mobilizing and educating the people. If we do not make a sound, bad people will think that they can do as they please and the people will think that we protect unlawful elements. Political and legal departments, propaganda departments and all units which safeguard the public interest must openly and boldly take on this duty.

In a status report the Ministry of Railways says that individual idle staff members in the society recently took advantage of the high demand on the limited number of tickets for some trains by using the method of buying the tickets early and buying up a lot of tickets and reselling them at higher prices. This occurs from time to time at stations in Guangzhou, Shenzhen, Shanghai, Nanchang, Bengbu, Hefei, Chengdu, Chongqing and Guiyang. In Beijing, for instance, two people collaborated in lining up to purchase tickets at the Xizhimen ticket office. From October 19 to October 22 they resold more than 30 tickets at high prices. On October 22 they rushed to purchase seven tickets for the ride from Beijing to Shanghai and then resold each ticket for profits at a price of 16.30 yuan higher than the original price of 23.7 yuan. Some staff members of contract units ordered more tickets than they were supposed to and then resell them for profits. Such cases have been found in Beijing, Guangzhou and Shenzhen. In another case, a ticket reservation worker of the Beijing University of Iron and Steel Technology took advantage of the convenience offered by ticket reservation contracts, ordered more tickets than he was supposed to and then resold them at high prices. On October 22 he sold two tickets for Shanghai at a price of 2.40 yuan higher.

Some units of the Ministry of Railways are slack in their management and have created opportunities for individual unlawful elements. At the same time, some railway station collective enterprises also concoct various pretexts to charge passengers and cargo owners for storage and handling fees.

To deal with the situation described above, the Ministry of Railways has already issued an urgent circular requesting all units of the railway departments to further correct the guiding ideology for railway transportation,

strengthen management, stop the loopholes and not to give opportunities to unlawful elements. As for the problem of some people in the society who resell tickets for profits, they must take the initiative of linking up with local public security departments, adopt practical measures and resolutely put a stop to such occurrences in order to safeguard the interests of the broad masses of passengers.

9586

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FINANCE AND BANKING

ESTABLISHMENT OF SHANGHAI FINANCIAL CENTER DISCUSSED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCE] in Chinese No 10, 15 Oct 85 pp 30-34

[Article by Lai Zuyin [0171 4371 5593]: "Probe on Setting up Shanghai as a Financial Center"]

[Text] Owing to its favorable economic and geographic conditions, Shanghai is not only the economic center of the Changjiang Delta Economic Zone but one of the major economic centers of the whole country. With the continuing growth of the economic zone's commodity production and market, the Shanghai economic center is calling for the appearance of its twin sister, the Shanghai financial center. In this article the writer attempts to present his humble opinions on establishing Shanghai as the financial center of the economic zone and also as an international financial center.

Financial Centers Are Necessary Products of a Growing Commodity Economy

As defined by bourgeois economists, the term financial center means "any city or country where huge amounts of financial transactions take place." In common language, it is a center of the banking business. It comes into being with the continuous growth of a commodity economy and the formation and development of an economic or trade center. It is a necessary product when a commodity economy grows to a certain stage, and an important component of an economic or trade center. Through monetary activities, a financial center plays an active role in promoting the development of an economic or trade center. Therefore, for any economic or trade center to exist and develop, it must have a sound and effective financial center to meet its needs, in addition to having a solid industrial and technical foundation and flourishing domestic and foreign trade, communications and transportation, science and technology, culture and education. This is true in a capitalist society as well as in a socialist society. It is an objective law independent of man's will.

Even before the founding of New China, with the initial development of some regional and national economic centers, a number of corresponding financial centers also took shape, e.g., Shanghai, Tianjin, Guangzhou and so forth. After the founding of New China, we used these financial centers, which played a positive role in organizing **public** funds, providing vigorous support to production, regulating currency circulation, stabilizing prices, strengthening

financial control, promoting commodity exchange and developing the socialist economy. Later on, due to influence of "left" guiding ideology in economic work, the stress was one-sidedly placed on vertical leadership and control by the ministries to the neglect of the natural flows of commodities, and economic development was taken to mean only industrial development, causing many economic centers to be turned into industrial centers, preventing these centers from playing their other roles as financial centers, trade centers, information exchange centers and so forth. The role of the economic centers was weakened, and the role of the financial centers was also affected.

Depending on the scope of their activities, there are domestic financial centers and international financial centers. The financial activities of international financial centers involve people of many countries, while domestic financial centers allow only people of one country to participate in their activities to the exclusion of foreigners and investors from abroad. In the last 100 years, especially since World War II, well-known international (or regional) financial centers such as London, New York, Zurich, Tokyo, Hong Kong, Singapore, Bahamas, Bahrain and so forth have appeared one after another in the world. Some of these cities are economic centers, such as London; some are international trade centers, such as Hong Kong; and some are "offshore financial markets" engaged in offshore banking operations--meaning in locations untouchable to laws and regulations--such as Bahrain, Singapore, Bahamas and other regional financial centers. The basic components of these financial centers generally include foreign exchange markets, currency markets (short-term money markets), capital markets (long-term money markets) and gold markets. They are different in terms of how long they have been established and how important their contributions are, but they have all provided us with a great deal of useful inspirations and experiences which include:

1. International financial centers have to be formed and developed step by step on the basis of international economic development needs and in circumstances and regions of relative political stability. The London international financial center is the oldest international financial center in the world. It has a history of 200 years and enjoys rather great prestige. A review of its history shows that before World War I, as Britain's economy developed rapidly, its industrial production became more and more centralized and monopolistic, its shipping industry advanced by leaps and bounds, foreign trade jumped to first place in the world and, with the country's relative political stability, the pound sterling became the major currency for settling international accounts and the major reserve currency of the world at that time. As a result, London gradually developed into the largest international money market of the capitalist world. At present, it is the world's principal short-term capital circulation center. One-third of all the money in European currency markets, one-half of the foreign transactions of American banks and more than one-half of the deposits of OPEC members in Europe are transacted or arranged here. London's foreign exchange market is the world's second largest, next only to Zurich. London's stock exchange ranks first in the world in both amounts and kinds of securities transacted, and obviously it is big.

2. International financial centers must have a free foreign exchange system, impose no control or rather loose control on foreign exchange, allow relative freedom in foreign exchange transfers and conversions and basically follow a liberal policy toward international financial activities. For example, since the 1970's, the Hong Kong authorities have adopted in good time a number of liberal economic and financial policies and brought favorable conditions for the development of the banking industry in order to turn Hong Kong into Asia's international trade and financial center with the processing industry as its foundation and foreign trade its main driving force and characterized by economic diversification. Hong Kong, for example, lifted the foreign exchange control in 1973, opened the gold market in 1974, relaxed restrictions on foreign banks setting up branches in Hong Kong in 1978, opened new gold and commodities futures markets in 1980, abolished taxation of interests on foreign exchange deposits and lowered the tax rates on interests of Hong Kong currency deposits and so forth, thus further opening up the financial markets and attracting more and more banking institutions and their businesses to Hong Kong. Therefore, Asia's biggest international financial center began to take shape and develop in Hong Kong. Transactions made at its foreign exchange market totals about US\$6 billion each day. Deals in gold total more than 4,000 tons each year. Bank loans total more than US\$10 billion each year, making Hong Kong the bank loan center of the Asian-Pacific region.

3. International financial centers must have a suitable geographic location, convenient transportation facilities and good modern communications installations. Owing to its extremely convenient geographic location for industrial and banking monopoly capital, the Bahamas international financial center in Latin America may replace the international financial centers located in other regions which may cause delays and losses. Because of this, Nassau, capital of the Bahamas, has become the center of Latin America's dollar market. Its volume of transactions has increased rapidly from US\$26 billion in 1973 to US\$104 billion in 1982. The state of Bahrain, where the Bahraini international financial center is located, consists of 35 islands with a total area of 67 square kilometers and a population of only 360,000, but there are great numbers of banks and international corporations on the islands. Modern communications equipment and dozens of air and shipping lines leading to all parts of the world link the Arabian Peninsula with Western Europe, North America and the Far East, enabling Bahrain's offshore banking business to grow rapidly. In the past 5 years, business volume has increased at an average annual rate of 35 percent, and the highest annual figure was US\$61.1 billion.

4. An international financial center must have a large number of capable and experienced professionals specializing in international financial operations so that it can provide better services to international financial institutions. One of the important reasons that Hong Kong has become an international financial center, forming a two-in-one combination with its other status as a free port, is that it has 70,000 highly competent professionals in the international finance business. The London international financial center's employees have all received strict training and are highly experienced and competent. This is why London has been able to maintain its position as the world's most important international financial center for a long time.

Moreover, the country where an international financial center is located must have a relatively stable currency system, adequate banking institutions and a flourishing domestic financial market so that it can engage in large scale international capital transactions. All this can be used for reference.

### Ideas on Establishing Shanghai as a Financial Center

Under the current main trend of economic reform and opening to the outside world, domestic commodity production and exchange are constantly growing in scale, and economic interflows are becoming more and more extensive. The situation calls on us to break through the bonds of tradition, boldly use some foreign practices and experiences for reference and establish a financial center as soon as possible to serve economic development. Based on Shanghai's conditions, the writer envisions two levels of development. The first is to establish a domestic financial center with the Changjiang Delta Economic Zone as the focal point and gradually extending services to the interior. The second is to gradually create the conditions for the timely establishment of an international financial center.

(1) On establishing Shanghai as a domestic financial center with the Changjiang Delta Economic Zone as its focal point and gradually extending services to the interior. Shanghai is the country's largest industrial city. According to 1983 statistics, Shanghai's industrial output value accounts for one-ninth of the national total, and revenue about one-sixth of the national total. It is also the country's largest port and trade city, its harbor handling one-third of the country's cargoes. Changjiang, which links Shanghai with the interior, has great potential for water transportation. These favorable economic and geographic conditions enabled Shanghai to grow quite early into one of the country's major economic and financial centers, but later its role was weakened. It is now time to establish a new financial center. Under the new historical conditions, it should have the following domestic functions:

1. As a fund-regulating center. Shanghai is the country's largest industrial base and trade center, and both industrial production and commercial marketing require financial support, therefore, Shanghai banks' credit funds and its financial strength in general are greater than cities in the interior. Since the 3d Plenary session of the 11th Party Central Committee, the decision-making power of enterprises has been expanded, and reserve funds of local enterprises have increased. As more people have found jobs, income has increased considerably. As of the end of June 1984, the balance of urban and rural residents' savings accounts reached more than 5.3 billion yuan, which became a major source of loan funds and strengthened Shanghai's credit capacity. However, these credit funds are scattered among the People's Bank and the various specialized banks, and under the present financial management system, it is difficult to regulate funds in a unified and flexible way. Because it is a closed, stable fund system moving along the track of a noncommodity economy, engaged mainly in distribution along departmental lines with local authorities playing a supplemental role, it cuts off normal lateral relations and movement of funds and hinders the formation of a

fund-regulating center. It is therefore necessary to set up a financial system adapted to the economic changes. The credit planning and management system in particular should be performed in a suitable way, that is, the bank credit system should be changed from the present system of departmental control into a management system which combines departmental and regional control with the emphasis placed on the latter and allowing regulation between regions. Thus lateral relations can be established between banks to facilitate flexible regulation of credit funds according to their natural direction of flow.

2. As a foreign exchange transfer center. Shanghai is the country's major foreign trade and export base. Between 1953 and 1980, Shanghai's export volume increased 20.3 times, at an average annual rate of 12.3 percent, higher than the national records of 18 times and 11.3 percent respectively for the same period, also higher than the 19-fold growth and average annual increase of 12 percent of world trade during the period 1953-1979. As export earnings grow, the amount of foreign exchange retained from trade increases correspondingly. In addition, certain amounts of foreign exchange are also retained from non-trade sources and by local enterprises. With further implementation of the policy of opening to the outside world, import items will increase, and tourism and the service trades will see even greater growth. Under the kind attention of the central authorities, Shanghai's future foreign exchange position will be quite strong. Making full use of this advantage and flexibly regulating foreign exchange funds will contribute to economic development.

To be flexible in allocating and transferring Shanghai's foreign exchange funds, it is necessary to give full play to the role of the Bank of China as the specialized foreign exchange bank. It is necessary to "untie" the Bank of China. First, it should be "untied" from the restrictions of the system with regard to certain overlapping external banking operations. The Bank of China should be given the necessary power and conditions to carry on unified foreign exchange operations. Second, taking the system of the Bank of China as a whole into consideration, greater decision-making power should be given to its branches in various places in order to put an end to their reliance on the "big pot" of interest earnings and bring their initiative into play. At the same time, from a long-range point of view, owing to growing production, Shanghai's foreign exchange expenditures on imports of raw materials are increasing year after year, and the city urgently needs to increase its ability to balance its foreign exchange income and outlay. For this reason, consideration should be given to increasing Shanghai's percentage of foreign exchange retention from trade, improving the procedures for retention of non-trade foreign exchange and authorizing the Bank of China's Shanghai branch to raise funds directly from international money markets when necessary. This is an objective necessity.

3. As an account settling center and financial information center. As one of the country's largest domestic and foreign trade centers, Shanghai constantly moves huge amounts of funds through the banks to settle accounts with various

other places. In 1983 alone, no small amount of funds was handled through Shanghai's industrial and commercial banks for account settling inside and outside the city. With huge amounts of funds, there are great potentialities. If concrete measures can be adopted to further facilitate account settling, a lot of money can be saved. For this reason, it is necessary to establish a flexible settlement center and initiate new forms of settling accounts such as expanding the limits to exchange of notes within the same city, starting on a trial basis remittance by checks, collection of telegraphic transfers and promissory notes and so forth to speed up circulation of funds and tap their financial potentials.

It is also necessary to establish in Shanghai a financial information center equipped with modern technology. Financial information is characterized by its comprehensiveness, timeliness and objectivity. Promptly sifted, transmitted and put to use, it is an "invisible wealth" for enterprises and the "third resources" for social and economic development. Therefore, great attention must be attached to it. At the beginning of the year, the banking information network of the economic zone was formally established, an important step toward establishing the economic zone's financial information center. The next step calls for vigorous efforts to train a contingent of information specialists, strengthen information technology and equipment, increase the application of electronic technology in information work step by step and quickly improve information quality to provide the objective basis needed to guide financial and economic work.

4. As a financial training and intellectual development center. Finance is a branch of science. A financial specialist with theoretical expertise and rich practical experience can only be brought up through society's painstaking culture. Owing to the influence of "left" ideas since the founding of New China, the role of banks and training of financial personnel have been ignored. Particularly the sabotage by the "gang of four" during the decade of turmoil has caused the present serious shortage in trained financial workers. It is necessary to pay serious attention to training to meet the need for competent personnel for establishing the financial center.

The training of financial workers should be rationally structured, conducted at different levels and through many channels. Generally speaking, medium and lower level financial personnel can be trained by universities and colleges and banking cadre schools, and senior financial management personnel should be educated in graduate schools specifically set up in universities and colleges. At present, there is no graduate schools of this nature in Shanghai. Preparations should be actively started without losing any more time. There are many experts, professors, scholars and research fellows at universities, colleges and research institutes in Shanghai, and it should be possible to invite them to serve as teachers. In short, it is necessary to make full use of the social forces, bring into play the strong points of all concerned, pool the wisdom and efforts of everyone, cooperate with each other and do a good job in training financial workers.

(2) On setting up Shanghai as an international financial center. Professor Qian Junrui [6929 0193 3843], an economist, recently pointed out: "In the next 30 to 50 years, Shanghai will become an international financial center." Although there are different views among academic circles, the writer agrees with him. Because whether or not a city can become an international financial center depends on the needs of social and economic development, even though certain basic conditions are necessary. If a reasonable need is put forward objectively, people will find a way to satisfy that need sooner or later. Engels said: "Once society has a need for technology, that need will push science forward more than ten universities can." Here Engels was referring to development in science and technology. But looking back in history, ancient and modern, Chinese and foreign, weren't economic theories developed in line with society's needs? Looking forward to future developments, it is necessary for us to set up Shanghai as an international financial center. There are two aspects to this need:

1. The world's economic center of gravity is moving to the east. Five hundred years ago, the world's economic center of gravity began to move from the Mediterranean Sea to the Atlantic coasts. By the end of the 1970's, a new historic move began, that is, "the countries around the Pacific Ocean have replaced Western Europe as the United States' major trade partners." The reason is that the Pacific region constitutes one-fifth of the world's land area and has one-half the world's population. This region has abundant natural resources, immense manpower and unmatched enormous markets. Particularly the beginning of close economic cooperation between China, where the economy is developing by leaps and bounds, the United States, Japan and other countries definitely will speed up the formation of the Pacific economic center of gravity, which in 20 or 30 years will eventually replace the Atlantic region and become the economic center of gravity of the world. By that time, Shanghai, located at the center of the "golden coast" of the Asian-Pacific region, surely will become a major international economic center like Tokyo and Yokohama. Naturally the financial service business will keep abreast of developments, and an international finance center will be established in Shanghai correspondingly.
2. China's policy of opening to the outside world will be further implemented. After the establishment of the Shenzhen, Shantou, Zhuhai and Xiamen special economic zones, China has further opened 14 coastal cities including Dalian in the north, Shanghai and Beihai in the south. Together with the four special economic zones, these cities have become the forward areas of the country's open policy, and this is a major strategic policy decision. From now on, these open cities, particularly Shanghai, will see ever-increasing economic cooperation with foreign business, trade talks, commodity interflows and exchange of visits, and incoming and outgoing money flows will increase both in quantity and frequency. By then, tens of thousands of businesses will converge from all over the world, and Shanghai's prosperity is anticipated. All this calls for the timely establishment of Shanghai as an international financial center to meet the requirements of the developing situation.

To sum up, judging from a strategic point of view for the coming 10 years or so, it is inevitable that Shanghai will become one of the world's major international financial centers. This is required by economic development. We must recognize this trend, adapt our thinking to it and prepare ourselves in work. Even though the necessary conditions are not available yet, we can take the following steps to achieve them gradually.

First, between 1985 and 1900 [as published], following the reform of the foreign trade system, we can suitably relax foreign exchange control to provide a precondition for establishing Shanghai as an international financial center. The possibility for this is increasing, judging by the country's need to reform its foreign trade system. Since the founding of New China, foreign trade has been under unified state management, and foreign exchange too has been under unified state control. In the past few years, import and export trade volumes have grown quite rapidly. However, for many reasons, we have suffered many losses. To solve the problem, people with vision have repeatedly called for reforming the foreign trade system as a first step. It seems that the reform of the foreign trade system is the general trend and that its occurrence is imminent. Once the foreign trade system is reformed, the state, localities, departments, collectives and individuals will all be able to engage in foreign trade and will all have foreign exchange receipts. It will then become unfeasible to continue strict foreign exchange control. Instead, foreign exchange control will be appropriately relaxed. Moreover, during this period, vigorous efforts should be made to train professional international financial workers, improve information networks, get additional information equipment, vigorously promote modern information work and constantly improve information quality to prepare conditions for establishing the Shanghai international financial center.

Second, after foreign exchange control is suitably relaxed, if all goes well without causing any serious problems, then we can move further to reform the financial system and open the money market to create conditions for establishing the international financial center. Concrete measures include setting up a finance building which will house the following:

1. A clearinghouse: Transfer and rediscount of notes should be started step by step on the basis of the present notes cashing and discount operations in order to facilitate flexible use of funds and regulate surplus and shortage within and between the specialized banks. The People's Bank can engage in rediscount of notes according to market conditions to perform a new function in financial regulation.
2. A stock exchange: To sell government-issued bonds and bonds, stocks and so forth issued by industrial and commercial enterprises.
3. A foreign exchange market: Foreign exchange rates should be negotiated between buyers and sellers freely and without restriction, but turning profits into one's own "property" in any form is strictly forbidden.

4. A money market, that is, a short-term capital market: Funds can be borrowed and lent at short-term interest rates between specialized banks and economic legal persons.

5. A gold market: Participating organizations may freely buy, sell and import.

6. Designated foreign banks will be permitted to open for business in the Shanghai financial center so that foreign capital can be used to develop our economy. At the same time, some foreign businesses can be introduced to us through these banks in order to expand Shanghai's economic relations abroad. These foreign banks and businesses should be permitted to freely remit abroad the profits from their legitimate operations in our country. Such a financial market, formed on the basis of measures taken by all concerned departments, with direct participation of foreign financial institutions and operating with a fairly high degree of freedom from restriction, will provide a reliable channel of information for foreign capital to decide on investment and will also play a big role in attracting inflow of foreign capital and technology. In this way, the Shanghai international financial center will become the focus of world attention like London, New York and other major international financial centers and stand tall on the Asian plain.

#### What Are the Urgent Tasks?

While the establishment of Shanghai as a financial center is an objective need of economic development, it is also a new task, an important policy issue involving a wide range of problems. It is necessary for all financial units to support each other, closely coordinate their efforts and adopt certain new measures to do a good job in preparatory work for establishing the financial center.

1. It is necessary to vigorously carry out reform of the financial system and, with reference to the "financial center administrative bureaus" set up in some countries, form a "Shanghai financial center management committee" in good time to strengthen organization and leadership. The banks should reform in an all-round and well-planned way their planning, credit, settlement, accounting and interest-rate systems according to the plan and progress of the structural reform of the national economy and in line with the requirements of the growing collective and individual economies and various types of contracts. It is necessary to fully implement the various forms of economic responsibility systems to bring into full play the enthusiasm of bank workers and staff members. At the same time, it is suggested that a "Shanghai financial center management committee" be set up under the leadership of the Shanghai Municipal Government. A vice mayor and a deputy secretary general of Shanghai Municipality will be appointed chairman and first vice chairman respectively of the committee; the managers (or assistant managers) of the People's Banks of Jiangsu Province, Zhejiang Province and Shanghai Municipality will be appointed concurrent vice chairmen of the committee; and managers of specialized banks in Jiangsu, Zhejiang and Shanghai and representatives of relevant institutions of higher learning and scientific research units in Shanghai will be appointed committee members. The committee's

sole responsibility is to direct matters concerning the establishment of the financial center. Its main task is to arrange the tasks of the various financial institutions under a unified plan in accordance with relevant principles and policies of the Central Government and in light of the requirements of the open policy and reform to coordinate their steps, strengthen their lateral relations and resolve step by step the difficulties and problems in setting up the financial center, the limitations of the financial system which is established on the basis of administrative divisions and the contradictions between departments and regions. Under the committee, there should be five departments responsible for work respectively in allocation of funds, allocation of foreign exchange, account-settling and information exchange, personnel training, and investigation and research.

2. It is necessary to find new ways and set new records in fund raising. To be a financial center, Shanghai must have a great capacity for fund raising so that money can be raised quickly for technical transformation of industries in the economic zone and for the key industries which must be developed on a priority basis. For this reason, it is necessary to adopt new credit forms and diverse fund-raising measures. For example, it is suggested that a savings department be set up to provide professional management and device new ways for the savings business, that vigorous efforts be made to develop the insurance business in urban and rural areas, that funds owned by the specialized banks be pooled through the People's Bank for organized use as loans to meet economic development needs and so forth.

3. It is necessary to increase the availability of funds and cooperation in settling accounts. Vigorous efforts should be made to encourage the various banks to supply each other's needs for funds in the spirit of mutual support and cooperation. Funds required by enterprises within plans are to be provided by the specialized banks with their own funds and deposits they are authorized to use. When this is not enough, the shortage may be made up by loans from the People's Bank according to the plans. Requirements for funds above plans may be met by short-term loans from other banks, and the People's Bank should permit this kind of short-term loans among banks, even though in different provinces or cities. On the basis of full-scale notes cashing and discount operations, considerations can be made on transfers and rediscounts implemented on a trial basis in order to achieve flexibility in the use of funds and regulate surplus and shortage. In account settling, flexible and varied forms of settlement should be developed, and restrictions should not be too strict and rigid. In dealing with the collective economy, while terms should be adhered to, it is also necessary to deal with each case on its merits and not to "demand uniformity in every case" in order to smooth out the circulation channels and make account settling more flexible.

12802  
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FINANCE AND BANKING

RELATIONSHIP BETWEEN PRICES, TAX REVENUE DISCUSSED

Beijing CAIZHENG YANJIU /THE STUDY OF FINANCE/ in Chinese No 5,  
30 Sep 84 pp 48-51

/Article by Jia Kecheng /6328 0344 6134/ of Beijing Economics  
College: "Views on the Relationship Between Prices and Tax Revenue"/

/Text/ In our country, the relationship between commodity prices and tax revenue is close. Correctly understanding the relationship between prices and tax revenue is of great significance in properly formulating the price policy and tax revenue policy to best regulate economic activities.

I. Is It Reasonable To Include Tax in Commodity Prices?

Some comrades think that "The measure of pricing new products currently in force is shaped by adding tax to the cost and profit computed on the basis of the cost and the profit margin. This measure which takes tax revenue, regardless of its size, as a logical component of price has kept tax revenue changes and price changes in synchronous steps.... Theoretically speaking, the pricing measure currently in force is also unreasonable.... In pricing, by adding profits to prices as a fixed-ratio quantity in cost regardless of the size of the tax revenue will inevitably bring about a deviation between value and prices thus making prices unreasonable.<sup>1</sup>

Viewed from the actual conditions in our country at present, not only prices of new products, but prices of products in general, are fixed this way. Tax is a fixed and independent component of price. Taxes, regardless of their size, are added to prices without exception. Is this pricing measure reasonable?

I think the industrial and commercial tax currently in force (the second step of the substitution of tax payment for profit delivery breaks down into product tax, increased value tax, business tax and salt tax; for convenience of description, only product tax is

1. HONGQI [RED FLAG] No 7, 1984 p 10.

discussed hereinafter) as a component of price is reasonable from the standpoint of the pricing measure. This is because it is determined by the nature and the function of the product tax.

Being enforced in our country is a plural tax system of multiple categories of taxes. They are agricultural tax, tax on the use of vehicles and ships, product tax, industrial and commercial income tax, real estate tax, individual income tax and so on and so forth. In the main, the product tax and industrial and commercial income tax are closely related to prices.

Industrial and commercial tax was levied in the past by the state mainly on the income of collectively owned enterprise in accordance with an eight-grade excess progressive tax rate. The same tax rates are now also being applied by the state to small state-operated enterprises. The income of an enterprise means the remaining sum from the total operating income earned by an enterprise within a fixed period of time after deducting cost, taxes and losses. This remaining sum is in fact the enterprise's profit. Therefore, the industrial and commercial tax is actually a kind of tax levied on the profit gained by the industrial and commercial enterprises from selling products. It is a form of state participation in profit distribution of enterprises. The profit created by an enterprise cannot totally go to the enterprise, it must be delivered to the state in the form of tax revenue based on a certain ratio. For example, the agricultural tax and the state-operated enterprises income tax both come under taxes of this character. This kind of tax should not and has not been taken for a component part of prices.

But a product tax is different from an income tax, it is a kind of tax levied according to the commodity selling prices of enterprises engaged in the production and marketing of products. This type of tax is in fact a commodity sales tax. It is independent of enterprise profit. Thus it becomes an independent factor in commodity price structure.

Why does the state levy a product tax? I am of the opinion that the main purpose for the state to levy this type of tax is to regulate economic activities through pricing. It is a component part of the price policy of the party and the state. The state has to adopt different price policies according to the needs of different commodities, such as a low-price policy for agricultural means of production and children's articles and a high-price policy for commodities like wines and tobacco. In this connection, it is necessary to work out different tax rates for different kinds of commodities and levy different commodity sales taxes so that the enterprises can maintain a reasonable margin of profits. Take a certain white wine in Beijing, for example. Its producer price is 2.55 yuan per jin, of which the profit accounts for 0.25 yuan

to 1.35 yuan, or 4-fold greater. Obviously, this is unreasonable. It is, therefore, clear that it is imperative for the state to implement this type of tax system to cope with the needs of price regulating policy. In light of its nature, this type of tax is a regulating tax. Only by putting it side by side with cost and profit and adding it to price as an independent factor can it play its due regulating role. This kind of regulation, first of all, is to regulate consumption (restricting or encouraging consumption) through price; secondly, it is to regulate the enterprises' level of profit so that they can maintain a proper and reasonable profit not to be affected price fluctuation.

## II. Is Commodity Price Tax a Component of Value or an Independent Factor Outside Value?

According to Marx's theory of value, commodity value is formed by three parts:  $c, v, m$ . In realistic economic life and in the price structure,  $c + v$  equals cost. What does  $m$  express? Profits li run 0448 3387 or gains ying li 4134 0448 (profit + tax)? If  $m$  expresses gains, then tax will represent a component of the commodity value; conversely, if  $m$  expresses only profit, tax will become an independent factor outside commodity value.

At present, the popular view in the theoretical circles in our country is that  $m$  expresses gains, thus tax is looked upon as a component of the commodity value. For example: "In our country, profits ying li 6366 0448 of state-operated enterprises have over a long time been expressed in two forms as tax (industrial and commercial tax) and profit li run. In terms of economic essence, they are both the expression of product value and money created by the surplus labor by the laborers."<sup>2</sup> "The term gains ying li 4134 0448 hereinunder refers to the sum of tax and profit, namely,  $m$ ."<sup>3</sup> Therefore, the viewpoint that the symbol  $m$  in commodity value calculation means calculation of gains ying li 4134 0448 and not profit li run, I think, is open to question.

First, the tax (product tax) in the price is borne by the buyers of consumers of the commodities and not by the producers. As mentioned before, the product tax is computed and levied based on product selling price. The producers selling the commodities will add this portion of tax to prices at the time of the sale. For example, the producer price of a certain product subject to tax levy is 1 yuan and the tax rate is 60 percent. In selling that product, the producer will not set the price at 1 yuan but 2.5 yuan. In this way, the producer still gets 1 yuan after the sale and pays 1.5 yuan in tax. If assuming that the commodity value is 1 yuan and the 1.5 yuan tax represents a portion higher than the value, this

2. ZHENGZHI JINGJIXUE JIAOCAI /POLITICAL ECONOMY TEACHING MATERIAL/ p 109.  
3. JIAGE XUE /PRICE STUDY/ p 97.

1.5 yuan in tax, from the taxpayer's point of view, is payable by the factory (producer). But, in fact, it is borne by the buyer. If the tax is said to be an expression of product value and money created by the surplus labor of a producer, then it should be borne by the factory and not by the consumer. It is wrong to look upon the tax borne by a consumer as a part of  $m$ , that is the value created by the producer, and look upon it as the enterprise's contribution to the state. In actuality, it is the contribution made by a consumer to the state. It represents a redistribution of the consumer's income through prices.

Second, there is no inherent relation between the tax and commodity value in terms of amount and size. The size of commodity value is determined by the amount of labor consumed. Tax, on the other hand, is determined by tax rates, which cannot represent the magnitude of the commodity value.

Third,  $m$  represents the remaining sum in the new value created by the laborers after deducting wages. It expresses the economic results in enterprises. Does  $m$  express profit /li run/ or gain /ying li 4138 0448/ in actual economic activities in our country? Superficially, it seems it expresses gain /ying li 4138 0448/. However, in essence,  $m$  can only be the result when cost is deducted from price when price is compatible with value. If the price is higher than the value, then,  $m$  can only be truly expressed by first taking out the portion higher than value from price before subtracting cost. The tax included in price actually represents the portion of price that is higher than value. Therefore, only by subtracting it first from price and then minus cost can  $m$  be truly expressed. In fact, it is being done this way in real economic life. For example, in investigating an enterprise's loss and the range of economic results, one is not interested whether an enterprise has made a gain or not but only interested in whether or not it has made a profit. This is because tax payment cannot show that an enterprise is not incurring a loss, but if an enterprise shows a profit, it illustrates that the enterprise is not running at a loss. It is thus clear that in real economic life,  $m$  is expressed as profits /li run/, not gains /ying li 4134 0448/.

Fourth, profits and taxes in prices must be calculated separately. If  $m$  expresses gains /ying li 4134 0448/, then, how should gains be calculated? According to Marx's theory on labor value, in the price should be computed in terms of wage and profit rates. Assuming that the wage is 1 yuan and the wage and profit rate is 100 percent,  $m$  means 1 yuan. According to the viewpoint that since  $m$  means a gain /ying li 4134 0448/, then this 1 yuan represents a gain which also includes tax, thus it is not necessary to independently compute the tax on the product price. Actually this is not so. Because  $m$  that derived from the computation according to the wage and profit rate can only express profit and cannot express profit and tax. Tax must be computed independently and separately.

In short,  $m$  represents profit /li run/, not gain /ying li/. In our country, the commodity price is composed of three different parts--cost, profit and tax. Cost plus a reasonable profit equal, more or less, commodity value. Tax is an added quantity on top of value, it is an independent factor outside commodity value. Thus, the tax-included commodity price is actually structured by adding tax to the commodity value.

Moreover, it is not proper to call the remaining sum derived from subtracting the cost from the producer price of an industrial product as a gain /ying li/ because there is not much difference in concept between gain /ying li/ and profit /li run/. If an enterprise achieved a gain, /ying li/, it shows that the enterprise is not running at a loss but has scored economic results. The term of making up deficits and increasing surpluses we often spoke about actually means increasing profits but not including the increase of tax revenue (product tax). Gains therefore should not include taxes.

I think that the remaining sum derived from subtracting cost from producer price of industrial products represents "gross profits" of industrial enterprises. The remaining sum derived from subtracting tax from gross profit represents "industrial net profit," that is, industrial profit.

### III. With Regard to Profit Regulation and Tax Revenue Regulation

The deviation between commodity prices and value is chiefly brought about by the relation between supply and demand and price policy. Soviet Academician Si-te-lu-mi-lin /phonetic/ once suggested that "without a deviation between price and value there will be no price policy." This viewpoint has a very great impact in our country. But Comrade Sun Yefang /1327 0396 2455/ opposed such a view. He held that a deviation between price and value ran counter to the demands of the law of value. He advocated that there should be no difference between price and value and that exchange at equal value should be practiced.

I think, the view that "without a deviation between price and value there will be no price policy" has given the people an impression that price policy calls for a deviation between price and value and that unity price and value is not a requirement of price policy. As a matter of fact, unity of price and value should also be our price policy and a most important and most fundamental price policy. However, for certain commodities in small numbers, price deviation from value is necessary. Primarily for regulating economic life, this policy should be called price regulating policy. Without price deviating from value there will be no price regulating policy. However, it cannot be said that "without price deviating from value there will be no price policy."

How should we correctly apply price regulating policy. One view is that to enable price to play its regulating role, it is necessary to set different profit margins for different commodities and that we should not use a certain profit rate to seek uniformity in everything. Judging from the current actual situation in our country, on the one hand, different taxes should be levied on different products and taxes should be added to prices to make prices deviate from value so as to regulate the economy. On the other hand, different profit rates should be set on different products in order to achieve price regulation. The result of the practice shows that this way of regulating, that is, price regulation through different profit rates, (called profit regulation for short) has more problems. This is because setting the profit rate too low will hamper the enterprises' enthusiasm for production, for example, because the profit margin is set too low for agricultural means of production and children's articles, factories are unwilling to produce them. This is very detrimental to the development of production. Conversely, if the profit margin is set too high, it will stimulate enterprises to engage in unrealistical production resulting in overstocking of products and waste. Profit regulation, therefore, needs to be improved.

I am of the opinion that price regulating policy should be realized through tax revenue and should not be realized mainly by means of profit rates. For certain commodities whose prices need to deviate from value, the profit rate should as a whole be identical with those commodities whose prices need not deviate from value and the price latitude should in the main be regulated through tax rates. Assuming that the set price of a certain commodity based on value should be 100 yuan, but due to the needs of a certain policy, it has to be sold for 120 yuan or 80 yuan. If it is sold at 120 yuan, the state will levy 20 yuan in tax on the enterprise. If it is sold at 80 yuan, the state finance will give the enterprise 20 yuan in subsidy. The 20 yuan in subsidy given to the enterprise may be regarded as a kind of tax load. Therefore, the latitude of the tax rates is determined by how much the commodity price deviates from commodity value. Tax rates should be worked out based on the situation in which commodity prices want to deviate from value, in this way, the amount of profits made by an enterprise will not be impacted by price policy.

In short, in accordance with the demands of the law of value, price regulating policy should in the main be realized through different tax rates. But it should not be done by doing two things at the same time, that is, to regulate prices by means of different rates of tax revenue and different profit rates, because different profit rates will make enterprises work vigorously for bigger profits, half-heartedly for less profits, and do nothing if no profit is involved. While it is wrong for enterprises to go after illicit

profits, it is compatible with the demands of the law of value to achieve reasonable profits, regardless of the products which are produced. With regard to the prices of commodities under various categories, a unified profit rate should be used to set the prices so as to make prices and value roughly consistent and enable enterprises to make due reasonable profits.

12662  
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FINANCE AND BANKING

JINGJI RIBAO ON FOREIGN CURRENCY BANK WITHDRAWAL

0W070656 Beijing XINHUA in English 0639 GMT 7 Mar 85

[Text] Beijing, 7 Mar (XINHUA)--Residents of the cities of Beijing and Shanghai, and Guangdong and Fujian Provinces may now make withdrawals from their hard currency bank deposits in foreign currency, the ECONOMIC DAILY reports today.

Previously, such withdrawals could only be made in Chinese currency—renminbi.

With the approval of the State Council, branches of the Bank of China in these areas began the new service from 1 March. The service will be available across China in the future, the paper says.

Last July, the Bank of China provided fixed foreign currency deposit services for the U.S. dollar, pound sterling, Federal German mark, Japanese yen and Hong Kong dollar. Other currencies must be converted to one of these.

This move will help the banks garner more foreign currency from private hands, the newspaper quoted a bank official as saying.

The Bank of China has formulated the following regulations on foreign exchange deposit withdrawals:

—customers who have deposited foreign exchange remittances may remit hard currency abroad or draw a certain amount of cash in hard currency;

—customers who have deposited their foreign currency in cash may draw hard currency. But the remittance of a large amount abroad is subject to the regulations issued by the State Exchange Control Administration;

—exit certificates will be issued to depositors who carry foreign exchange withdrawals abroad by themselves or through others; and

—it is illegal to sell foreign currency on the black market.

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FINANCE AND BANKING

PROGRESS OF CHINA'S FOREIGN EXCHANGE WORK REVIEWED

Beijing ZHONGGUO JINRONG /CHINA'S FINANCE/ in Chinese No 11, 4 Nov 84 pp 20-22  
/Article by the Bank of China: "Tremendous Changes in the Foreign Exchange Work of New China"/

/Text/ In the past 35 years, tremendous changes have taken place in China's foreign exchange work because of a signal victory in China's socialist revolution and construction.

First of all, China has abolished the foreign exchange privileges of imperialists and bureaucratic and comprador bourgeoisie and established independent socialist foreign exchange control and management systems. With regard to the exchange rate, China has completely freed itself from its dependence upon imperialist currencies and established an independent exchange system based on Renminbi to serve socialist construction. With regard to foreign exchange control, China has adhered to the principle of Chinese market monopoly by Renminbi, implemented a foreign exchange system of centralized state control, strictly prohibited valuation in foreign currencies and the circulation of foreign currencies and vigorously attacked foreign currency speculation and other activities that create monetary confusion. With regard to foreign exchange management, China has put an end to the situation in which foreign banks enjoyed management privileges and monopolized the foreign exchange business (foreign banks willing to abide by China's pertinent laws and decrees are still allowed to engage in the foreign exchange business). China has stipulated that foreign exchange receipts must be sold to the Bank of China or other specified banks. It has implemented a system under which the specialized foreign exchange bank of the state--the Bank of China--handles the foreign exchange business in a unified manner.

China formulated the foreign exchange principle of centralized control and unified management by the state shortly after the PRC was founded. Practice has proved that this principle has played a positive role in increasing foreign exchange receipts, economizing on foreign exchange expenditures, accelerating the development of the national economy and foreign economic activities and safeguarding the interests of the state. The Bank of China has shouldered the heavy tasks of controlling and managing state foreign exchange for a long time, thus fulfilling its duty to the state. In recent years, along with implementation of the open door policy, China's foreign exchange control and management

systems have improved, developed and been perfected day by day. They have embodied in detail the "Temporary Provisions of the People's Republic of China for Foreign Exchange Control," which was promulgated by the State Council in 1980, and a series of individual foreign exchange control decrees subsequently promulgated. This has great significance and impact on adapting to the development of the new situation and better implementing the open door policy.

Second, foreign exchange receipts and expenditures have increased by leaps and bounds. Prior to liberation, due to the reactionary control by the Kuomintang, the economy was depressed, the people lived in dire poverty and the foreign exchange business was already having its last gasp. Since the founding of new China, the party and government have strengthened economic activities and trade with foreign countries and adopted a series of correct policies and measures, thus resuming and increasing China's foreign exchange receipts by leaps and bounds. China's foreign exchange receipts and expenditures in 1983 were 47.47-fold more than in 1950 and 1.31-fold more than in 1978. Foreign trade exchange receipts and expenditures in 1983 were 44.27-fold more than in 1950 and 0.98-fold more than in 1978. Nontrade foreign exchange receipts and expenditures in 1983 were 35.21-fold more than in 1950 and 2.7-fold more than in 1978. These figures do not include the foreign funds directly used by China in the past few years in the form of compensation trade, processing imported raw materials, joint ventures and cooperative management. China's foreign exchange balance in 1983 was \$14.3 billion, an increase of 145-fold over the \$98 million in 1950 and 8.2-fold over the \$1.55 billion in 1978. This was the best historical record.

Not only have China's foreign exchange receipts and expenditures increased by leaps and bounds, but the mix of import and export commodities has also changed. The general trend indicates that in exports the proportion of farm and sideline products has declined while that of industrial and mineral products increased and that in imports the proportion of goods and materials in short supply has declined while that of machinery equipment and technology increased. This is an indication of improvement in China's level of industrialization. In the early postliberation period, there were only a few items of nontrade foreign exchange receipts and expenditures such as overseas remittance and foreign currency receipts and conversion. Now there are more than 40 items of receipts and expenditures, indicating that China's tourism, aviation, railway, ocean transportation, port, post and telecommunications, banking, insurance, publication and film undertakings have developed and changed. The expansion of the business scope and the increase in the number of businesses in this field also reflect to a certain degree an improvement in China's economic strength.

Third, China has entered international money markets and engaged in international credit activities. Due to a backward economy it was very difficult for old China to enter normal international money markets. Even if it did get some loans or the so-called assistance, they were either used in the civil war to slaughter the people or seized by bureaucratic comprador bourgeoisie to line their own pockets. Following the founding of the PRC, due to then international environment and "leftist" influence, China had been closed to international intercourse for a long time and had seldom engaged in international credit activities, except for Soviet loans in the 1950's which have already been

repaid. After the 3d Plenary session of the 11th CPC Central Committee, China implemented the policy of opening to the outside world, thereby creating favorable conditions for entering international money markets and carrying out international credit activities.

In the past few years, in addition to the sizable loans China received from international financial organizations and the governments of concerned countries, China has also raised a large amount of useful foreign exchange funds--a total of \$30 billion by the end of 1983--through the Bank of China. Among them, over \$5 billion have been foreign currency and bank deposits. At the same time, China has also signed \$23 billion of loan agreements including buyer's credit with such countries as England, France, Italy, Canada, Sweden, Australia, Japan, Belgium, Norway, Argentina, Denmark and West Germany.

In light of the needs of China's capital management and the conditions of international capital markets, China has entered international bond markets. In addition to purchasing bonds, China has also issued government bonds in Japan. China has earned a very high international reputation because it has adopted vigorous but safe steps in raising and utilizing foreign funds and gives first consideration to its ability to repay principle and interest. In May this year, Japanese credit greading organizations gave AAA--the highest credit grade--to the Bank of China after examining its basic conditions including its consistent stress on honoring contracts and keeping promises, its reputation in guaranteeing foreign payments, its steady business development and its evergrowing assets. This has created an extremely favorable condition for the Bank of China to directly enter Japanese capital markets and issue government bonds in Yen and for China to carry out various activities on international markets in the future.

Fourth, China has always adhered to the principle of developing the foreign exchange business for the purpose of promoting economic construction. In old China, because the foreign exchange business was controlled by foreign businessmen, bureaucrats and speculators, it essentially became a means of speculation, profiteering and bringing calamity to the country and people. It had no positive role in developing the economy. Since the founding of new China, the Chinese Government has formulated a series of correct policies around the development of the foreign exchange business. Especially since the 3d Plenary Session of the 11th CPC Central Committee, China has adopted many effective measures, increased the variety of loans, expanded the scope of loans, lowered the interest rates of loans, conducted the trust investment business and accelerated the development of China's foreign exchange business. Since the reform of banking system, China has established a relatively complete financial system. The Bank of China is playing a greater and greater role as the State's specialized foreign exchange bank in order to further adapt to the need to carry out foreign economic activities and accelerate the development of socialist economic construction.

Domestic and overseas branches of the Bank of China have all considered doing a good job in financial service as their motto in conducting all business. They have continued to expand the scope of service, increase work efficiency and strive to achieve high quality, diverse capacity and high efficiency. At

the same time, they have also vigorously expanded the scope of business and adopted flexible methods to conduct business. They have vigorously pursued or created conditions to pursue all common practices of international financial circles or business methods suitable for China's actual conditions, as long as they are conducive to accelerating the development of socialist economic construction. Overseas offices of the Bank of China, which are located in international financial centers, have coordinated with organizations at home to provide more and better financial services relating to information communications, trust consultation, foreign businessmen and fundraising. This is also the objective of work for the overseas offices of the Bank of China.

By the end of 1983, the Bank of China had 470 subsidiary organizations at home and aboard (most overseas organizations are located in the Hong Kong and Macao area; London, New York, Luxembourg and Singapore have branch offices; and Tokyo and Paris have agencies) and over 23,000 staff members and workers. Telecommunications, computers and other business equipment of these organizations are being gradually modernized. In order to expand foreign business, the bank of China has established relations to handle business for over 3,100 banks in 149 countries and areas. China has established relations to settle accounts with all but a few countries and areas in the world.

In the past 5 years, the Bank of China used foreign exchange funds (a total of \$19.7 billion) to support China's energy, communications, oceangoing transportation and other key construction projects and the technical transformation of central departments and medium-sized and small enterprises. This has played a relatively strong role in promoting China's socialist economic construction.

From now on, the Bank of China should make further efforts to improve service and expand business in accordance with the needs of state and local economic development and make due contributions to vitalizing China and quickening the tempo of the four modernizations.

12302  
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FINANCE AND BANKING

XU YI ON SOCIALIST FINANCE WITH CHINESE CHARACTERISTICS

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[Article by Xu Yi [6079 3015]: "Establishing a Socialist Financial Theory With Chinese Characteristics—On the Occasion of the 35th Anniversary of the Founding of the PRC"]

[Text] In all these 35 years, our workers on the financial front, whether engaged in actual work, in theoretical work or in teaching, under the guidance of Marxism-Leninism and Mao Zedong Thought and upholding the principles of integrating theory with practice and of having theoretical studies serve actual practice, summed up the historical experiences of financial and economic work in the socialist revolution and socialist construction, engaged in investigation and research and launched theoretical explorations to solve the problems of financial administration and problems of actual practice in the socialist construction. They are now in the process of progressively establishing a socialist system of financial theory suited to China's national conditions and with Chinese characteristics.

Since the founding of the PRC, along with the development of socialist practice, the formulation of financial theory in China has evolved from practical financial activities in internally related and regular stages, from the introduction and study of Soviet financial theories in the early years after liberation, to perpetuating and studying in actual practice the financial theories, principles and policies of the revolutionary bases, to a summing up of the experiences and lessons gained in the socialist construction. These developments have passed through several periods of major significance: (1) The period of the First 5-Year Plan: When our leaders in party and state summed up the experiences in the restoration of China's national economy, in the socialist transformation and the financial and economic work during the First 5-Year Plan, they put forward many important views regarding China's socialist economy and management of financial affairs, such as the idea of unified planning with due consideration for all concerned and coordinating all activities of the nation as in a chess game; the idea that in the area of distribution, consideration must be given to the three parties, namely the state, the collective and the individual; the idea that in unified planning and overall balancing, an overall balance of finance, credit and goods and

materials must be effectively achieved; the idea that the scope of construction must be consonant with the financial and material strength of the country, and so on. All these theories and views are summarizations of socialist practice and constitute important components of a financial theory with Chinese characteristics. (2) The economic readjustment of the 1960's up to 1966: In order to sum up experiences from a theoretical standpoint, explore the developmental laws and promote practice, the Ministry of Finance called the first and second all-China Symposia on Financial Theory in 1964 and 1965. These two nationwide symposia not only discussed in depth such theoretical practical problems as the character and scope of socialist financial administration, the function of tax revenue from enterprises under state ownership, the relationship between balancing the budget and an equilibrium in credits, goods and materials, the financial relationship between the state and the enterprises, the relationship between financial administration and prices as well as socialist economic accounting; the symposia also strengthened the cooperation between the workers in the field and those engaged in theoretical work and teaching. They emphasized that the study of financial theory must uphold the integration of theory and practice, and that it must be actual practice, so as to gradually form and develop a Chinese system of financial science. The symposia were therefore of major significance for the orientation and organization of the development of Chinese science and research in finance. (3) The new stage of flourishing developments in finance since the Third Plenum of the 11th CPC Central Committee: From the center of the nation to all local branches, a continuous rebuilding and constructing of centers of scientific research in finance and of finance and economics at universities and colleges took place. Early in 1980, the China Finance Society was founded, and the financial science front blossomed forth with new vitality. Since 1980, four nationwide symposia on financial theory and 30 scientific seminars were held on special topics. With regard to theoretical research and the buildup of financial science, through the summing up of positive and negative experiences, and particularly by the all-round implementation of the policy of readjusting, restructuring, consolidating and improving of the national economy, many important theoretical and practical problems in our socialist construction were subjected to penetrating and systematic investigation and research and many valuable policies and measures were proposed, of which quite a number have already been adopted by our leading organs and have, furthermore, engendered positive results in our actual work.

### I. The Intrinsic Nature of Socialist Public Finance

Determining the intrinsic nature of public finance is a basic problem of theory. How to gain a true concept of the essence of finance, touches not only on the evolution of a system of finance as a science, but also on our conception, in the theoretical field, of such questions as the function, scope, role and position of public finance in the social reproduction process, and, in the field of practical work, on how to accurately conceive the nature and tasks of financial work and the best ways to perform one's own work in finance.

In the early years of the PRC, the conception regarding public finance held

by our Chinese scholarly circles in the field of finance was mainly derived from two directions: One direction was following the bourgeois viewpoint on the science of finance and on public finance by regarding public finance as a task of the government to satisfy the needs of society by the procurement, use and administration of capital and goods. Another viewpoint was derived from the Soviet concept in the science of finance that "public finance is a system of currency relations." The latter concept was the dominant one in the science of finance during the 1950's. It moved finance into the field of economic relations, consequently revealed the social nature of financial distribution and is helpful in making people aware of the essential difference between socialist finance and capitalist finance. However, currency relations are the form in which economic relations commonly manifest themselves within the commodity economy and could not reveal the special nature of finance. In the wake of developments of our socialist financial practice, from the latter years of the 1950's to the early years of the 1960's, Chinese scholars in the field of finance evolved such views regarding the intrinsic nature of finance as "the theory of value distribution," "the theory of state distribution," "the theory on the movement of funds by the state" and "the theory of movement of surplus value."\* At the First Symposium on Financial Theory, conducted in 1964, the above views were fully elaborated and discussed among the participants and the divergences of views can be expressed in short as follows: First, is public finance essentially linked with the state, or is it by nature linked with commodities and currency? Second, is public finance delineated in its scope and borders by distribution, or does it embrace fund circulation; is it limited to value distribution or is it limited by the production, circulation and distribution of  $M$ ? The crucial point is the proper understanding of the relationship between the financial affairs of state-run enterprises and state finances. At this symposium, most comrades tended toward the viewpoint of "the theory of state distribution," regarding as the true nature of socialist finance that the state, in order to be able to perform its functions, participate in the distribution relationships, which consist in the distribution of social production and of state revenue, the basic peculiarity differentiating socialist public finance from other distribution relationships being its linkage with the intrinsic nature of the state.

At the Third National Symposium on Financial Theory in 1979 and at the Forum on Basic Theories at the 1980 National Conference on Public Finance, the adherents of the "theory of state distribution" pointed out, on the basis of a study of the positive and negative historical experiences since the founding of the PRC: Public finance is not only a means of the state to gain the material requirements for its existence and for the performance of its functions, but also an important lever used by the state for the foundation of its national economy. This moves the research into the nature of dialectical relationship between the three factors, namely public finance, the state and social reproduction. In theoretical respects this research is then pursued by placing the

\* On the various views on the nature of finance, see Comrade Chen Rulong [7115 1172 7893]: "Closing Address at the 1964 Symposium on Finance" in "Collected Discussions on Questions of Finance," Vol 1, China Finance and Economics Publishing Co, 1965.

question of the nature of public finance into the area of the mutual relationship between the superstructure of society and its economic base, and by directly linking it with the development of the productive forces and of production relations. In actual practice, it affords a place of high importance to the role of the state's accurate utilization and all-out performance of all its functions.

Since 1979, some new views were put forward at the successive national symposia on finance theory and conferences on socialist finance, the main being "the theory of the premise of reproduction," which holds that under the conditions of socialist public ownership of the means of production, public finance becomes a link in the process of social reproduction that one cannot do without. As far as the main content of this theory is concerned, it holds that it is not at all that we must take as a premise for the nature of public finance that it serve as a special administrative tool to enable the state to exist, but that the objective existence of social reproduction within the system of public ownership of the means of production is the essential prerequisite in its nature.

Airing of contending views on the question of the nature of public finance led inevitably to the discussion of a series of related theoretical questions of politics and economics concerning the origin of public finance, the reactions caused by the state in the economy, the functions and historical task of a state of proletarian dictatorship, etc., and thus opened up deeper and wider prospects for the discussion of the nature of public finance.

## II. Financial Distribution and the Economic Laws of Socialism

The purpose of all science is the discovery and mastery of the nature of the object of its research and the laws by which it is governed. The object that the science of finance in socialism is intent on studying and revealing is the true nature of the activities of socialist public finance and the laws that govern these activities. This lawful nature comprises not only the lawful nature of the financial activities themselves, but also the lawful nature of the internal linkage between financial activities and the entire national economy. The purpose of this study is to know, master and utilize this law so as to accurately determine and implement financial and economic policies, institutions and planning, organize financial distribution activities, effectively handle the various relations in financial distribution and improve the way the role of public finance is brought into play in socialist construction.

Chinese scholars in the field of public finance approach the study of the laws governing public finance from an exploration of the laws governing the concrete movements of revenue and expenditure and the patterns of contradictions between revenue and expenditure. Some comrades deduce from the relationship between economic growth and increasing public revenue a law of continuous growth of public revenue, of increasing product profits, etc., based on the development of socialist production. Other comrades believe that balancing public revenue and expenditure is the basic law of financial distribution. Some comrades

believe that it is necessary to further clarify and make definite the law of overall balance by keeping expenditure within the limits of income. Other comrades believe that the balance between public revenue and expenditure is merely the reflection of lawful, planned development, that the main contradiction which financial distribution must solve is the proportionate relationship between accumulation and consumption. Although all these explorations are confined to financial activities themselves and must be further explored within the framework of the internal linkages between financial distribution and the economic laws of socialism, they are all, nevertheless, very valuable for our better understanding of the phenomena of public finance and of the laws of financial distribution.

The Third Plenum of the 11th CPC Central Committee passed the strategic resolution of shifting the focus of all work throughout the party to the construction of the four modernizations and emphasized the need to proceed in all affairs according to objective laws. The study of the relationships between financial distribution and the economic laws of socialism is to solve on the theoretical level the problem of how to pursue financial work according to the objective laws of the field. From the spring of 1979 on, our scholars in the field of public finance have, on the one hand, participated in discussions on the objectives of socialist production and on the system of socialist economic laws in society, and, on the other hand, directly organized discussion on how financial work is to be carried out in accordance with the economic laws of socialism. The following are the main views that have been elaborated in the course of these discussions:

1. If financial distribution is carried out in accordance with objective laws, it is first of all carried out in accordance with the basic economic laws of socialism. For a long time past, emphasis was on accumulation, while consumption was taken lightly, emphasis was on quantity and effort was concentrated on speed, while the proportionate nature of developments was taken lightly and rational structuring was neglected, which are all attitudes that do not conform to the demands of the basic economic laws of socialism. It must be deemed that with consumption being the objective and starting point in arranging the proportionate relations of the national economy, effectively resolving the relations between accumulation and consumption, between state construction and the people's standard of living, are indeed the objective demands of the basic economic laws of socialism, demands which have to be met whether it is in planning work or in the work of public finance.
2. The repeated blunders in planning and incongruity in proportions in the national economy since the founding of the PRC are not due to defects of the system of planned socialist economy, but were caused by "leftist" mistakes in leading economic ideology. Financial distribution must accurately reflect the demand that the national economy follow the law of planned and proportionate development. It is determined by the demands of the basic economic laws of socialism and the law of social reproduction that the national economy must have well-planned and well-proportioned standards. The public finances of the state must organize distribution according to the above-mentioned demands

of economic laws, and must at the same time observe the principle of acting within the limits of its capacities if a well-planned and well-proportioned development is to be achieved without a hitch. In the relationship between financial planning and economic planning, there is need for mutual inspection and mutual interaction.

3. The economic laws of socialism form an organic entity in which there is mutual interaction and much internal linkage between the various laws. The basic economic law occupies the position of the dominant economic law and plays the role of prescribing the scope and restrictions of all other economic laws. The law of value is a law of commodity economy, and in a socialist system, where commodity production and commodity exchanges are carried out under the conditions of public ownership of the means of production, certain changes occur in the economic conditions within which the law of value functions because it must accept the restrictions of the basic economic laws of socialism and of the laws of planned and proportionate development of the national economy.

4. Handling all affairs according to the objective economic laws requires an accurate knowledge of the relations between economic laws and economic levers, on the one hand, and the economic system, on the other hand. A conscious application of economic laws requires acting by means of appropriate economic levers and also requires a certain economic organizational system. Any kind of economic lever and economic organizational system must be restricted in function by the system of socialist economic laws, and must not be merely governed by one particular law. At present, we must, on the one hand, conduct our affairs according to the special economic laws of socialism but, at the same time, due to the existence of commodity production and commodity exchanges, we cannot and must not neglect the demands of the law of value. However, we must under no circumstances, because of an emphasis on the development of commodity production, stress unduly the role of the law of value and neglect the basic economic laws of socialism, the law of planned and proportionate development of the national economy, the rule of distribution according to work and any other demands posed by economic laws that reflect the intrinsic nature and special characteristics of the socialist economy.

### III. Relationship Between Public Finance and the Economy

At the time of the War of Resistance Against Japan, Comrade Mao Zedong employed the tenet of Marxism regarding the dialectical relation between production and distribution and put forward the thesis that the economy determines public finance and that public finance affects the economy. Based on the general policy, which had by then been adopted, of "develop the economy, ensure supplies," he correctly solved the financial and economic problems of the base areas. This scientific theory and revolutionary practice is still of great significance for our financial work and for the formation of a financial theory during the socialist period.

Since the founding of the PRC, our scholars in the field of finance have attached the greatest importance to the study of the relationship between socialist public finance and the economy. In the early years of the 1950's,

mainly through the study and research of the general policy of "develop the economy, ensure supplies," they advanced one step further in their understanding of the Marxist tenet of production determines distribution and the reaction of distribution on production, as well as of the concrete manifestations of the tenet as seen in the mutual relations between public finance and the economy. During the implementation of the First 5-Year Plan, Comrade Zhou Enlai put forward the argument that financial planning and economic planning must be mutually restrictive and that one should not oppose "financial restrictiveness." Comrade Bo Yibo [5631 0001 3134] put forward the thesis of the "two, three, four" threefold proportions of national revenue distribution to restrict the scope of construction and establish an equilibrium of national strength. Comrade Chen Yun put forward the guiding ideology strength and the theoretical method of using the three balances, namely of finance, credits and materials, and the overall balance between them to restrict the scope of construction to a volume commensurate with the national strength. These basic theoretical views guided by Marxism and derived from a summary and generalization of China's concrete practice have greatly raised and enriched the theory of relations between public finance and the economy.

During the 3 years of the "Great Leap Forward" and the 10 years of turmoil, a voluntarism was onesidedly emphasized that gave prominence to politics and had politics decide everything; from theory to practice the relations between public finance and the economy was ignored, allowing the national economy to sink into chaos and great distress. The Third Plenum of the 11th CPC Central Committee conscientiously rectified the "leftist" errors, effectively brought order out of chaos and restored the scientific feature of many theories that had been distorted and turned upside down. At the Third National Symposium on the Theories of Public Finance, convened after the Third Plenum of the 11th CPC Central Committee, the relation between public finance and the economy was discussed as a key topic of the meeting. The participants reviewed the positive and negative experiences in the 30-year development of the national economy and expounded the important position of public finance in the national economy. At the same time they also employed the Marxist tenet of reproduction in a discussion of the position and function of public finance in the process of social reproduction, as well as the relation of the fiscal distribution structure to the economic structure, and in basic theory deepened the relation between public finance and the economy. On these two questions further discussions were held at several of the subsequent national symposia on theories of public finance. The following are the main views elaborated at the discussions: 1. The relationship between the distribution structure and the economic structure is one of interdependence and interaction. From the viewpoint of the distribution structure that determines production structure. This relationship manifests the ratio of accumulation and consumption in the distribution of national revenue and the internal proportions within each of them; it restricts and regulates the developmental changes in the structure of the national economy, among which the adjustment of the fiscal expenditure structure is of decisive effect on the readjustment and changes in the structure of the production sector. In the practice of our national economy, the

readjustment of the distribution structure is the basic means of readjusting the structure of the national economy. 2. Fiscal distribution is the basic regulatory tool in the distribution structure. Through fiscal distribution it is possible to regulate and control the distribution structure of national revenue. 3. In readjusting the distribution structure we must uphold the principle of acting within the limits of our abilities, and pursue readjustments within the scope that our national strength permits. The meetings also launched discussions on determining--with our national condition as starting point--rational rates of accumulation, the proportion of fiscal revenue in the national income and other such questions.

The effective disposition of the relationship between public finance and the economy means in terms of actual work giving attention to the methods of raising, accumulating and using funds, improving economic results and bringing about a state of having our work in public finance render better service to the flourishing projects of our socialist modernizations. The China Finance Society, acting in accordance with the directives from leading comrades of the central authorities, adopted the topic of methods of raising, accumulating and using funds as the key topic of its Fifth National Symposium on the Theories of Finance and at a certain number of subsequent discussion meetings on special topics, engaging in further penetrating and systematic studies.

"The three-way method in finance" had already been put forward in the early years of our state to meet the needs of the situation at that time. To bring this method up again is a basic way to realize the strategic resolution of shifting economic work on to a track that has raising economic results as its core and to strive for a radical turn for the better in our public finance and economic condition. As regards theory, the raising, accumulating and using of funds refers in essence to the problems of the production, distribution and utilization of the national revenue. In the relationship between these three factors, raising funds is the basic one and concerns the problem of developing production and improving economic results. Accumulating money is a medium, the core of which is the problem of correctly managing the relationship between the state, the collective and the individual in the distribution process. As to the use of funds, attention must be paid to results, and this factor is concerned with solving the problems of distribution structure, proportions and the results of utilization. Raising funds is the point of departure and the end-result of accumulating and using funds. Raising funds must rely for its rational realization on the ability shown in accumulating funds and on the appropriate use of funds, while use of funds must be ensured by the accumulation of funds. As regards public finance work, we must, through rational organization and adjustment of the distribution and redistribution of national revenue, effectively achieve an overall balance and a must promote in a planned way the improvement of the economic, industrial and organizational structure of our enterprises, stimulate the technological renovation of our enterprises, increase our national income and our fiscal income, so as to better satisfy the needs of our national construction and the needs of our people in their livelihood.

#### IV. The Problems of Public Finance, Credit, Foreign Exchange, Goods and Materials Balances and Comprehensive Public Finance

Prior to liberation, our people fully tasted the bitterness of inflation. In the early years after total liberation, the first task that we were faced with in our economy was to start out from efforts to balance revenue and expenditure in the attempt to stabilize our currency and our commodity prices, in order to create favorable conditions for the restoration of social stability and for the recovery of our national economy. The first question of theory that arose from actual practice after the establishment of our government was to balance public finance and credits. From the successful experiences of organizing the actual balancing of revenue and expenditure in the period of national economic recovery and during the First 5-Year Plan period, and from the excessive spending on previous years, there resulted an inappropriate tightening of credits and stocking of large quantities of commodities in warehouses. The further excessive speed of investments for capital construction, agricultural credits and increases in salaries and wages in 1956 resulted in an imbalance in public finance, credits and goods and materials. People then became aware of the importance of a balance in revenue and expenditure and of the intrinsic connection between revenue and expenditure, on the one hand, and the granting and repayment of credits, on the other hand. It was realized that in the balance of the three factors, public finance, credits and goods and materials, the balance of state revenue and expenditure is the crucial factor, that balance in credits is a reflection of the overall situation and that the balance in the supply and demand for goods and materials is the foundation.

In summing up the experiences made during the First 5-Year Plan, especially after the lessons of the 1956 mistakes, Comrade Chen Yun [7115 0061] put forward the theories that the scope of construction must conform to the national strength and that we must persist in balancing the three big factors, public finance, credits and goods and materials. He integrated the Marxist tenet of reproduction with the practical realities of socialist construction to create a basic theory of socialist public finance called the theory of "national strength" or of "the three big balances." Persisting on an equilibrium of public finance, credits and goods and materials is a basic method of restricting the scope of constructions to be in balance with the national strength. It is also a way to ensure, through organizing in a planned way, a balance of public finance, credits funds with goods and materials, and a smooth realization of social reproduction. As to the method of organizing the equilibrium of public finance, credits and goods and materials, in the period from the later years of the 1950's to the early years of the 1960's, it was mainly a study of the problems of coordinating how to compile a comprehensive plan for the state's revenue and expenditure with the control of the total volume of funds, the direction of fund distribution and the composition of goods and materials.

Although the above-stated theories were ignored or even negated during the "Great Leap Forward" and during the 10 years of turmoil, practice is the

criterion for testing truth. The experience gathered at the time of recovery of the national economy, during the First 5-Year Plan and during the economic adjustments in the 1960's, justified the principle of overall balancing and had the national economy develop smoothly. The lessons from the period of the "Great Leap Forward" and from the 10 years of turmoil were that when overall balancing was ignored, it led to imbalances in the national economy. The evidence, positive and negative, demonstrates that the theory of persisting in the three big balances and of having the scope of construction conform to the national strength is scientific truth.

For the purpose of overcoming the serious consequences for public finance and for the economy brought on by the 10 years of turmoil and to institute readjustments in the national economy in a planned way, the achievement of a balance in public revenue and expenditure and an equilibrium with the financial and material strength of the nation became an important topic in the economic life of the nation and received attention from all those concerned with public finance and its theories. In these questions, new progress has been made in broadening the range of these studies and in probing in greater depth, as is manifested in the following:

1. As to the broader range, the three large balances were enlarged to become four large balances, and from the balancing of funds in public finance and credits, there was a move to an overall balancing of the financial strength of the national economy. Due to the opening up toward the outside world, the balance in foreign exchange receipts and expenditures assumed a growing importance. This touches not only on such questions as how to use our material resources and services effectively in international economic interchanges, avoid losses due to the adverse effects of international inflation and how to make full use of foreign funds and technologies and speed up domestic modernization projects; the balance of foreign exchange receipts and expenditures and the importation of foreign capital also has a direct effect on the domestic balance of funds and materials. We must, therefore, not only study the special demands of the state as to the balancing of foreign exchange receipts and expenditures themselves, but must also study the relation between foreign exchange receipts and expenditures and the domestic balance of funds and materials, so as to have the various types of foreign loans and debts become in a planned way commensurate to the state's ability to repay in foreign currency, and to have an overall equilibrium between all investments and materials imported from abroad as complementary to our domestic items. It is, therefore, necessary to add to the foundation of the three balances, namely public finance, credits and goods and materials, the overall balance of foreign exchange receipts and expenditures, thus forming a theory of the "four great balances."

Among the original three great balances, we must mainly study the integrated balance between the fiscal funds allocated centrally by the state and credit funds. Following the reform of the economic system, the decentralization of financial authorities and of the financial means caused not only an expansion of the range of (extrabudgetary) funds, including special funds allocated by enterprises, but also a sharp increase in the amount. Bank credits were not

only granted as revolving credits, but also as investment credits. We must, therefore, study the problems of fund distribution and unified balancing in the national economy under the new situation. For instance, the question of unified balancing of fiscal credits is by its very nature no longer purely a question of providing needed circulating capital for production and widening circulation, but to a very large extent a question of supplying investment funds for the planned arrangement and adjustment of reproduction. Balancing fiscal credits is also no longer achieved through financial surplus and increased credit allocations, but requires mutual adaptation and coordination on the basis of strengthening the individual balances (public finance must guard against deficits and spurious receipts; banks must guard against granting credits against false deposits and inflated credits). There is at the same time need for further strengthening in the question of plan control over extrabudgetary funds and the special funds of enterprises and in the question of unified balancing.

As to the theories and methods of administering the financial strength and organizing the balancing of the financial strength of the national economy, the question of comprehensive financial administration was therefore put forward. In December 1979, Comrade Bo Yibo gave the following guideline at the inaugural meeting of the China Finance Society and the Third Symposium on Theories of Public Finance; "Comprehensive public finance is also a field of science; it is mainly the study of scientific theories and techniques to improve the management of public finances, in order to contribute strength to China's four modernizations." In recent years, our scholarly circles concerned with public finance have engaged in broad discussions of the question of comprehensive public finance and have mainly gained the following understanding: First, as far as understanding is concerned, there is a gradual trend to take comprehensive public finance to mean carrying out an overall arrangement for all kinds of funds in society, including those within and outside the budget, credits, special funds of enterprises, foreign capital, foreign exchange, etc., in accordance with the principles of well-planned, well-proportioned socialist distribution, in order to improve the distribution of social compensatory funds, consumption funds and accumulation funds and furthermore to promote, through a rational distribution structure, a more rational structure for the national economy, raise the use effectiveness of funds and the objective economic results in the national economy. The target for the study of comprehensive public finance are therefore the laws governing the movement of all social funds, the formation of the various kinds of social funds and the proportionate relations between them. The purpose of the study is the coordination of the use of the various kinds of funds, seeking to achieve the best proportions and greatest efficiency in the use of the various funds. Second, a concrete effect of comprehensive public finance in planning work is the establishment of a comprehensive plan for fiscal credits. Compilation of a comprehensive plan for fiscal credits, having the state budget as core element, will make it a component part of the national economy and of the plan for social development; with the use of system engineering it will be an important method of comprehensive accounting, comprehensive analysis and comprehensive balancing, enabling an effective development of the reproduction process. The compilation of the comprehensive plan for fiscal

credits will enable channeling all kinds of funds onto the track of the state plan and integrating them under a unified guiding plan, complementing each other, each with its particular point of emphasis, gaining the most effective use results from the funds and thus speeding up the development of the national economy.

2. As to the depth of the studies, there was first of all a deepening of the understanding of the character of the "four great balances." The essence of the "four great balances" is the control of the balance between production and consumption with a balance of the distribution and circulation links in the social reproduction. In more specific terms, to achieve in the distribution sector a balance between the distribution of state revenue and the formation of state revenue, in the circulation sector a balance between supply and demand of commodities, and an equilibrium by coordinating the distribution of newly formed purchasing power and the commodities that circulation can supply, controlling the equilibrium between production and consumption and achieving an equilibrium between the scope of construction and the consumption of the people on the one hand and the strength of the nation on the other hand. Second, the integration of the study of the "four great balances" with a study of the structure of our national economy and exploring the intrinsic connections between them. The achievement of the "four great balances" in social reproduction demands certain economic conditions; among these, the rational structure of the national economy is an important prerequisite. Under the conditions of imbalance in the national economy, the disjointed state of social production and social needs can create false balances in public finance, credits and goods and materials, which in the end may have an adverse effect on the equilibrium between the scope of construction and national strength. Third, through a discussion of the deficit in public finance, it became known that there had been a deficit in public finance of considerable proportions during the 3 years starting in 1979, which had been brought about by the efforts to dispose of the problems accumulated during the 10 years of turmoil. There is a radical difference between the financial policy of the Western countries and our policy of disposing of the deficit, but the problem must have serious attention, and effective measures must be taken to eliminate the deficit, as it could otherwise endanger our national economy and the livelihood of the people. Studies and discussions at the same time deepened understanding of the intrinsic connection between a deficit in public finance and currency inflation, credit inflation and rising commodity prices. Fourth, in recent years, following the development of structural reforms in the economy, there has been a rapid increase in extrabudgetary funds, inducing people to study such questions as the character, scope and management of extrabudgetary funds. Through studies it was clarified one step further that by their character, the extrabudgetary funds are a kind of fund of the state's public finance, that they are a form of state funds under graded management, that they constitute a second budget of the state. Strengthening the plan management for extrabudgetary funds is a need arising from the implementation of the macroeconomic adjustments in the national economy and the comprehensive balancing of funds.

## V. The Problem of Structural Reform of Our Financial Administration

The system of financial administration is an important component of the system of business administration. In the management of the economy, it is necessary to have the economic relations between the various grades of state executive organs and management organs, between departments and between state authorities of various grades and the enterprises under their jurisdiction, suit the objective demands posed by the development of the socialist production relations and productive forces. It is absolutely necessary to restructure any economic management system that does not conform with the demands posed by the development of the productive forces. Following the 3d Plenum of the 11th CPC Central Committee, the reform of the financial management system became a breakthrough point for the reform of the economic system. The question of the reform of the financial management system also became a key topic for discussion at the third and several following national symposia on the theories of finance.

1. On the relationship between readjustment and restructuring. To bring about a step by step change in the state of economic collapse and chaos created by the 10 years of turmoil, the central authorities proclaimed a strategic policy of readjusting, restructuring, consolidating and improving the national economy. In this "eight character policy," readjusting and restructuring are two closely related aspects. Readjustments will mainly solve the problem of proportionate imbalances in the national economy. Restructuring will mainly solve the problems of certain superstructures, particularly various management systems, being unsuitable in the face of the developing production relations and productive forces. The two aspects form a dialectical unity that supplement and complement each other. However, the choice between the two at a certain period of time, has to be determined by the main contradictions or the main aspects of the contradiction in the national economy at that particular time. When the national economy suffers a serious imbalance in its proportions, when the scope of construction exceeds the national strength, the irrational economic structure can be mended and the overall situation invigorated, only by giving priority to conducting readjustments. At such times restructuring must be subordinated to readjustment. When the readjustment will have achieved a certain measure of success, and the proportionate relations in the national economy will have been basically harmonized, restructuring will become the main aspect in adjusting the production relations and stimulating the enthusiasm of the state, of the local authorities, of the enterprises and of staff and workers, and it is restructuring that will promote the socialist economic development. Work in public finance must adapt to the different conditions at different times and must emphatically implement the "four point policy" in the service of the development of the national economy.

2. Guiding principles in restructuring the economic system. The Third Plenum of the 11th CPC Central Committee pointed out: "One of the serious shortcomings of China's present economic management system is the overcentralization of authority. There has to be a courageous transfer of authority to lower levels; local authorities and industrial and agricultural enterprises must be allowed more self-determination in business management under the guidance of the unified plan of the state." The accurate implementation of this principle requires

accurate and effective handling of the relationship between planned economy and market regulation. At the present stage, our system of public ownership of the means of production determines that our economy must uphold the priority of planned economy and use market regulation only as subsidiary system. Our intention in restructuring the management system must be to help invigorate our microeconomy, stimulating the enthusiasm of the local authorities and enterprises and invigorating the market, but we must also attempt to benefit the strengthening of the state's control over the macroeconomy, have the major power under centralized control, decentralize minor powers and enliven the overall situation without creating confusion.

3. The management system as between the state and the enterprises. The correct handling of the distribution relations between the state and the state-operated enterprises is an important aspect of coordinating socialist production relations. At the first and second national symposia on the theories of public finance, the distribution relationship between the state and the state-operated enterprises had been a key topic. At that time the main points of emphasis were the levy of a product tax from the state-operated enterprises, enforcing the state's policies and demands through the combined leverage of taxation and prices, regulating the level of profits on products and urging enterprises to strengthen economic accounting, at the same time using taxation to regulate the relation between prices and public finance and to ensure the treasury's revenue.

After 1979, the discussions at several symposia particularly emphasized the improvement of the responsibility system in enterprises, believing that: First, to expand the self-determination of the enterprises, it is necessary within a certain period of time and within rational limits, to appropriately delegate financial management to lower levels and to speedily resolve the contradiction of the excessive centralization of financial means and financial powers, which will have the effect of stimulating the enthusiasm for production and business conduct in the enterprises. However, the purpose of the reforms must definitely not be to make monetary demands on the state; in the distribution of profits the principle of having the larger share go to the state must be upheld, also including the principle that the state must be guaranteed the larger share if enterprise profits increase. Second, perfection of the responsibility system in enterprises is the direction to take in the reform of the financial affairs in state-operated enterprises. To have the enterprises, working under the guidance of the state plan, assume full responsibility for production, business operations and any profits or losses, it is necessary in the course of the reforms to thoroughly break with such practices as having all receipts and expenditures taken care of by the state and having the enterprises eating out of the big pot of the state. There must be a link between economic results and production and business operations in enterprises, and the system of defraying reproduction expenditure (except investments for large and medium capital constructions) must gradually change from such expenditure being allocated by the state to being borne by the enterprises themselves. Third, in the reform of the system of distributing the income of the state and the state-operated enterprises, the lever of taxation must be fully brought into play and a regulatory system of multiple

taxes and multiple levels of taxation must be instituted, using the form of taxation to fix the distribution relationship between the state and the enterprises and adopting a system of leaving profits after taxes to the enterprises. At the same time as the expansion of self-determination for enterprises becomes guaranteed, we must ensure a stable increase in state revenue, allowing enterprises to take care of their own financial affairs and have them bear responsibility for certain risks of profits and losses.

4. Reform of the system of fiscal administrations as between the central and the local authorities. In 1980, the system of "eating from different kitchens" was instituted in fiscal administration. It broadened the fiscal powers of the local authorities, raised their sense of responsibility, broke away from the situation of centrally controlled revenue and expenditure, stimulated the enthusiasm of the local authorities to manage their own financial affairs and was beneficial for having the local authorities undertake all arrangements in the interest of developing their own regions. However, there are still places where arrangements have not yet been completed. Following the overall turn for the better experienced in financial and economic conditions, and after completing the shift from profit-delivery to taxation, the revenue of both central and local authorities should be established on the basis of allotting different taxes to them, one kind to be the revenue of central authorities, one kind to be the revenue of local authorities, one kind to be the revenue of local authorities and one kind to be shared by both. In this way, both central and local authorities will be ensured stable income, and the distribution of enterprise income will be freed from restrictions due to administrative competencies. As a consequence, the macroeconomic regulation of financial distributions will be much more fully brought into play.

The restructuring of the system of fiscal administration is a complex problem. It involves reform of the system itself and also the problem of harmonious coordination with a variety of other organizational systems. It is, therefore, necessary to effectively carry out overall planning of the reform of the economic system, draw up specific plans, coordinate steps in the reform of various other systems and in addition effect a harmonious coordination in the relationship between the use of economic levers and the restructuring of the organizational system.

9808  
CSO: 4006/171

FINANCE AND BANKING

BRIEFS

GUIZHOU INSURANCE BRANCH INCREASES BUSINESS--Guiyang, 11 Mar (XINHUA)--The Guizhou branch of the People's Insurance Company has insured 40 percent of the provincial state-run enterprises' fixed and floating assets for four billion yuan, company officials told XINHUA today. February premiums were 69.9 percent up on the same period of last year. Premiums last year amounted to 12.21 million yuan, of which domestic premiums in the province rose 38 percent over 1983 and foreign premiums by 51 percent. Insurance business has boomed since 1979 when it resumed after 20 years. The company's 42 branches in Guizhou insure commercial property, automobiles, ships, family property, personal life, planting and breeding, freight transport and pensions. Foreign coverage has expanded from export transport to foreign investment, joint ventures, compensation trade, capital construction, project installation and third party liability. The Guizhou branch has paid out 5.56 million yuan on over 1,300 claims for losses by fire, flood, storm, hail and lightning since 1980. [Text] [Beijing XINHUA in English 1356 GMT 11 Mar 85]

BANK LOAN FOR JIANGSU--Nanjing, 7 Mar (XINHUA)--The Jiangsu branch of the Industrial and Commercial Bank of China lent 770 million yuan for technology purchases in 1984, helping the province's factories raise their output by 2.9 billion yuan, according to bank officials here today. Loans to Jiangsu totaled 2.2 billion yuan from 1979 to 1984. Over 60 percent of the funds went to light industry or textile plants to help them upgrade equipment and raise productivity. Some 50,000 more television sets were produced in Jiangsu factories last year, while refrigerator output will be increased from 15,000 in 1983 to 50,000 this year. The rest of the loans were used to boost production of name-brand and high-quality products by giving factories more advanced technology and equipment, the officials added. [Text] [Beijing XINHUA in English 1051 GMT 7 Mar 85 OW]

CSO: 4020/145

INDUSTRY

COMBINED MILITARY, CIVILIAN TECHNOLOGY BRINGS GOOD RESULTS

Beijing RENMIN RIBAO in Chinese 19 Nov 84 p 3

[Article by Chen Zujia [7115 4371 3946]: "Achieving Economic Independence by 'Developing the Manufacture of Products For Civilian Use To Support the Manufacture of Products For Military Use;' A Visit to the China Aircraft Accessory Institute"]

[Text] Can military-industrial research organizations that have always depended on the support of state-allocated operating expenses undergo reform, implement royalty contract systems and gradually achieve economic independence?

Recently, reporters visited the China Aircraft Accessory Institute. After the 3d Plenary Session of the 11th party Central Committee this institute brought its own technological superiority into play, shifted military-industrial technology to technology for civilian use, and achieved remarkable economic benefits. By combining military and civilian technology and using the manufacture of products for civilian use to support the manufacture of products for military use they gradually achieved economic independence. This is one typical example that has emerged from the present reform of scientific and technological systems.

Yang Yansheng [2799 3601 3932], senior engineer and director of the institute, guided the reporters on a tour of each of the research offices. This institute has considerably strong ranks of technical personnel, has a few hundred metal-cutting machine tools, and possesses rather firm scientific research plans and strong trial-production capabilities for aircraft hydraulic control systems, aircraft environmental control systems and other specialized areas. In previous years the institute was not all that busy, and some technical personnel had nothing to do. In the spirit of the Central Committee's directive on shifting military-industrial technology to technology for civilian use, they began to explore the field of developing products for civilian use.

As soon as the China Aircraft Accessory Institute began to develop products for civilian use, it paid attention to combining its own direction in scientific research and development with bringing its technological superiority into play in selecting products for civilian use which were

technologically difficult to develop and which were much-needed for the national economy. This is known as being "technologically similar and technically interlinked." Applying aircraft turbine expansion cooling techniques to the recovery of oilfield associated gas is one such example.

Comrades who have been to oilfields know that when pitch black petroleum is recovered from the earth there is an accompanying emission of some gas, among which are blended light hydrocarbons that can be used as industrial chemicals and as fuel for civilian use. According to experts' statistics, for every ton of recovered crude oil there are approximately 50 to 200 cubic meters of associated gas. If the entire nation produced 100 million tons of crude oil, then the amount of associated gas could reach 5 to 200 billion cubic meters, among which would be contained 700,000 to 2.8 million tons of blended light hydrocarbons. In the past, ammonia evaporative cooling techniques were used to recover light hydrocarbons, but not only were the techniques complex and the power consumption great, millions of yuan had to be invested for each set of equipment, large amounts of land were used, and the construction period was long. It was difficult to popularize this type of technology. In oilfields large amounts of blended light hydrocarbons burn off into the atmosphere without being used. In 1977, the petroleum department became aware that overseas aircraft turbine expansion cooling technology was being used to recover associated gas. The investment was small and the benefits were large, so the department issued the requirement to the institute.

Although it is said that on technical principle the turbine expansion cooling equipment used in oilfields is interlinked with the equipment used in aircraft, the equipment is not at all the same when it comes to the number of spare parts, the size of specifications and the service life, all of which require redevelopment. Speaking of service life, aircraft turbine expansion engines can satisfy the requirements so long as they can operate continuously for 300 hours, but those engines used in oilfields must have a service life that is 10 or more times longer. In order to develop this product for civilian use, institute director Yang led the technical personnel on a survey of an oilfield site. They went to the Daqing oilfield, where they braved the bitter cold of minus 30 degrees to conduct tests, staying with the workers in a simply equipped work shed where they could look after the equipment. Some technical personnel spent 6 months out of 1 year at the site. Not long after, they successfully developed blended light hydrocarbon recovery devices that pioneered the way in domestic technology. In July 1981 the first group of devices that they trial-produced were officially put into use at the Zhongyuan oilfield. Each day 50,000 cubic meters of associated gas were processed and five tons of light hydrocarbons were recovered, with an income of 2,500 yuan. In the second year after the devices had been put into operation 2,300 tons had already been recovered, and the real income from sales had reached over 1.2 million yuan renminbi. After reading the relevant reports, a leading comrade of the Central Committee commented

on the report: "Please give support to this matter, for it is a positive result of shifting military-industrial technology to technology for civilian use." Institute director Yang told the reporters that after a few years of development the light hydrocarbon recovery devices were initially developed into a series. In all there are four models of turbine expansion cooling engines with 14 specifications, and they have become one of the mainstay products of the institute. Up until the end of this year they will supply to oilfields throughout the nation 24 sets of devices with various specifications that overall will process 4 billion cubic meters of associated gas. After they completely go into operation they can increase the output value for the nation by 100 million yuan. Shifting military-industrial technology to technology for civilian use has demonstrated its power.

We accompanied institute director Yang to a 60 or 70 square meter showroom where on display were industrial products for civil use that the institute had developed in recent years. In addition to the turbine expansion cooling engines of various specifications, there were also a series of servo valves of varying sizes, automobile break shoes, clutch plates, piezoresistance solid-state pressure transducers, etc. All of these products were developed by the institute's now-available technology, and some of them have won some scientific research achievement awards, national defence scientific research awards, and state economic commission outstanding new products awards. Developing products for civilian use has increased the institute's income: the 1983 output value for products for civilian use increased more than 16 times compared with that of 1978. This year, they have already been listed as a test point for the reform of scientific and technological systems, and they will completely eliminate funded operating expenses and achieve economic independence.

Will developing products for civilian use and achieving economic independence affect the assignments for the scientific research of military products? In the beginning, some of the comrades at the China Aircraft Accessory Institute were somewhat worried. They feared that products for civilian use would squeeze out products for military use, they feared a change in the direction of the institute's technological development, they feared that products for civilian use would exhaust the funds for scientific research, etc. After a few years of practical experience a clear conclusion was drawn: there is no need to worry. So long as the institute firmly grasps the principle of technological similarity and technical interlinking techniques and brings its technological superiority into full play when developing products for civil use, the development of those products not only will not squeeze out products for military use, it will on the contrary temper the scientific research ranks, increase the funds for scientific research, improve the lives of the technical personnel, and promote the scientific research of products for military use. Electrohydraulic servo valves are another mainstay product of this institute, and once this technology was popularized at the Wuhan Steel Plant's 1.7 meter rolling mill large funds on the foreign exchange

were saved, which gave the institute close to 1 million yuan in income. Moreover, it has provided large amounts of data and materials for scientific research work. Comrades at the institute say that combining the development of products for military and civilian use is the only way to speed up developments in military-industrial scientific research.

9926

CSO: 4013/53

INDUSTRY

BRIEFS

LANZHOU INDUSTRIAL OUTPUT--Total output value of Lanzhou City industry in January and February was 190 million yuan, a rise of 24 percent compared with the same period last year and a record for the period. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 9 Mar 85 HK]

SHAANXI FEBRUARY INDUSTRIAL OUTPUT--In February the province's industrial production continued to rise, and its gross industrial output value totalled 1.118 billion yuan, an increase of 26.2 percent compared with the same period last year. In the first 2 months this year the province has rapidly developed light industry production. Some top and medium-grade consumer goods such as television sets, washing machines, bicycles, sewing machines and watches have increased by over 21 percent. But the production growth of television sets was over 100 percent. In the textile industry, such products as chemical fibres, silk fibers and nylon have increased by more than 30 percent. In heavy industry, 35 out of 45 products have experienced growth. [Summary] [Xian Shaanxi Provincial Service in Mandarin 2300 GMT 7 Mar 85 HK]

HUNAN INDUSTRIAL PRODUCTION--Hunan Province's gross industrial output value in January and February this year was 3.873 billion yuan, an increase of 33 percent over the same period last year. [Summary] [Changsha Hunan Provincial Service in Mandarin 0000 GMT 6 Mar 85 HK]

YUNNAN INDUSTRIAL PRODUCTION--The province's industrial output value for February increased by 18.7 percent as compared with the same period last year, an all-time high. [Summary] [Kunming Yunnan Provincial Service in Mandarin 2300 GMT 7 Mar 85 HK]

CSO: 4006/462

CONSTRUCTION

REFORM OF BUILDING INDUSTRY STRESSED

Beijing JIANZHU /BUILDING CONSTRUCTION/ in Chinese No 12, 7 Dec 84 pp 5-6

/Article: "Why Choose the Building Industry To Be the Breakthrough in the Reform of the Urban Economic System"/

/Text/ The organizational reform of the building industry has developed rapidly since Premier Zhao Ziyang pointed out in the "Government Work Report" at the Second Session of the Sixth NPC that the building industry should carry out reform across the board. Currently, reforms in the whole industry are developing from small-scale to large-scale reforms, from single-item to co-ordinated reforms and from reforms within enterprises to reforms throughout the industry. A vigorous new reform situation is forming and a highly efficient, beneficial and reputable strong industry is about to appear among all trades and professions in the urban areas of China.

The "Decision of the CPC Central Committee on the Reform of the Economic System," which was adopted at the 3d Plenary Session of the 12th CPC Central Committee, has expounded the necessity and urgency of accelerating the reform of the economic system as a whole with emphasis on urban areas and set forth the direction, nature, tasks and various basic principles and policies of the reform. It is a programmatic document of guidance for the reform of the economic system in China. All staff and workers of the building industry should conscientiously study, understand and resolutely implement its guidelines so as to do a better job in the across-the-board reform of the building industry.

Practice in the past 5 months or so has proved that the decision of the CPC Central Committee and the State Council on the reform of the management system of the building industry is absolutely correct and conforms to the desire and requirement of the broad masses of staff and workers of the building industry. While carrying out the reform, staff and workers of the building industry have attained a new plane of thought and changed their vertical observation system to a horizontal one. Instead of simply comparing themselves with their own past, they compare themselves with coastal and advanced areas and set up a new consulting system. The concepts of time and value have been enhanced extensively. The concepts of market, information and competition have been gradually injected into the sphere of enterprise administration and management. The development of commodity production, the expansion of circulation channels and the adherence to the principle of material interests will also become a new

force of habit that will push the building industry forward on a new track. This is of great significance to revitalizing and developing the building industry, accelerating the reform of the urban economic system and realizing the magnificent goal of the four modernizations.

Why did the CPC Central Committee and the State Council choose the building industry to be the breakthrough in the reform of the urban economic system? This is a question that the staff and workers of the building industry must understand thoroughly. In the "Government Work Report," Premier Zhao Ziyang pointed out: "The building industry can be the first of the urban trades to carry out reform across the board" because "it has a tradition of making contracts, its tasks are relatively clearcut, its relations with the state can be easily defined, it does not involve too many other sectors and there is no lack of market for its products." The tradition of making contracts, clearly defined relations with the state and the marketability of products mentioned here are exactly where the superiority of the building industry is. It is this industrial superiority that determined its breakthrough status.

First, the building industry is a competitive industry. It has a long tradition of inviting bids and making contracts. Its customers are certain. Its relations with the state can be easily defined. In many countries, the production activities of the building industry are closely related to the business of real estate. Its products enter the sphere of circulation not through brokers' multilevel wholesale and retail channels but through the method of inviting and making bids. It relies on its strong ability to compete, win the bid on engineering projects, expand business and practice direct sales. Because of this, the building industry is always in a competitive situation. It is subjected to the selection and test of society at all times. Only by relying on the initiative to make progress and by continuously raising the technological and management level can it carry out production and make progress. Otherwise, it would lose its market and be eliminated by competition.

Second, the building industry is an industry of relatively great potential to accumulate funds for the state. In the past 30 years or so, funds provided by the building industry for the state accounted for four to five percent of gross national income. This is because the price of construction products has long been divorced from their value. If construction products can have rational prices and proper profits after reforms and readjustments, the building industry will be able to accumulate even more funds for the state.

Third, the building industry is an industry capable of spurring the development of other industries. It has great condensing and driving power. Not only can it provide material and technological bases for all sectors of the national economy but it also can spur the building material, metallurgical, forestry, chemical, light, machinery and many other industries to develop accordingly because it consumes a great variety and quantity of goods and materials. Between 20 to 30 percent of China's steel products, about 30 percent of timber and over 70 percent of cement are consumed by the building industry. It also needs a large amount of bricks, tiles, lime, gravel, stones and other local materials. Therefore, only when the building industry is developed can it bring about the development of these industries.

Fourth, the building industry is an industry that will never decline. China's strategic goal for the year 2000 includes two things: One is to quadruple the gross value of industrial and agricultural output; the other is to raise the people's living standards to a comfortably welloff level. This comfortably welloff level includes clothes, food, shelter and transportation. Among these, shelter is the main contradiction. In order to provide a living unit for every household and 8 square meters of living space for every person, it is necessary to build 2.56 billion square meters of new houses, averaging 150 million square meters a year. ~~In order to meet the need of the rapid development of rural towns, it is estimated that 12.6 billion square meters of houses and about 10,000 small cities and towns need to be built in addition to the 3 billion square meters of farm houses built since 1979. At the same time, many key and energy communications projects, raw material industries and scientific research, cultural and educational facilities will be built during the period of the Seventh 5-Year Plan and the period of economic revitalization in the last 10 years of the 20th century. After China realizes its industrialization, the development of production and the improvement of the people's living standards will set even higher demands on the building industry. Therefore, the growth of China's building industry will by no means decline in several decades, construction products will always be in great demand and the building industry will grow and flourish day by day.~~

Fifth, the building industry in China is still considered an industry between industry and agriculture. Its area of influence is small and it easily makes breakthroughs. The reform of the building industry began with the multilevel economic contract system. It is obviously affected by agricultural reforms. A major reason the building industry learns so fast from agricultural reform is that they have many things in common. Its production style is between that of large industries and agriculture. The strictness, continuity, technical complexity and funding structure of its production are close to large industries, whereas the dispersion, mobility, long cycle and labor intensiveness of its production are close to China's agriculture. Compared with urban industry and commerce, it is easier for the building industry to absorb and assimilate the experience of agricultural reform. Therefore, the building industry should be the first to carry out reform. At the same time, because its reform has had an earlier start and a definite work foundation, it is capable of being the first to carry out reform.

According to the above understanding, the reform of the management system of the building industry and capital construction should focus on three things as pointed out by Premier Zhao--namely, charging the use of construction funds, making investment contracts for construction projects, and implementing the public bidding and contract system of building construction. Doing a good job in these three items of reform has an extremely vital bearing on shortening the cycle of construction, improving the quality and reducing the costs of engineering projects. The first two items concern mainly the relationship between the state and construction units and do not have much to do with building enterprises. The third item is like the "nose of an ox" to the reform of the building industry and all other items of reform are carried out around it. The key to judging and examining whether the reform of the building industry has started the ball rolling is to see whether the public bidding and contract system has occupied a dominant position.

Building enterprises should adopt the management method of state ownership and collective management to fully guarantee that enterprises do not eat from the "same big pot" of the state and staff and workers do not eat from the "same big pot" of enterprises. They should conscientiously implement the principle of to each according to his work and more pay for more work, sign contracts for the content of wages in 100-yuan output value, and implement the economic contract responsibility system at all levels.

They should also pay attention to and do a good job in designing reform. First of all, ~~they should solve the understanding problem of designing work.~~ They should clearly understand that designing is the halter of construction work and the soul of an entire project and that they must liberate thinking, invigorate creative activities and adopt advanced designing ideas and technologies to improve design quality. They should focus on reforming the management system of designing work, eliminate the barriers between regions and departments and carry out bidding and emulation activities to select the best designing plans.

The across-the-board reform of the building industry has just begun. Many problems are still waiting to be studied and solved. Reform is an important and arduous task. Therefore, we must conscientiously study and thoroughly understand the guidelines of the "decision" so that we can better combine the reality of the building industry and carry out the reform in a down-to-earth and creative manner.

12302  
CSO: 4006/268

## CONSTRUCTION

## LARGE GASWORKS PLANNED FOR GUANGZHOU

Guangzhou NANFANG RIBAO in Chinese 22 Nov 84 p 1

[Report: "Guangzhou Will Build a Large Gasworks; Daily Gas Output 400,000 Cubic Meters, Residents of 160,000 Households Will Be Able to Use Piped Gas"]

[Text] Concerned departments of the State Council has approved the construction of a large gasworks in Jishan district of Huangpu in Guangzhou. It will have a daily gas output of 400,000 cubic meters, one-third of which will be supplied to industrial and public welfare consumers and two-thirds to residents (for use by 160,000 households).

There are 580,000 households in the city proper of Guangzhou, the majority of which are using honeycomb briquet. The annual production of honeycomb briquet in the city as a whole requires over 1 million metric tons of coal dust and loess. During combustion, several tens of thousand metric tons of dust, sulphur dioxide and carbon monoxide are discharged into the air, which puts pressure on communications and transportation departments and seriously pollutes the environment. Through efforts in the past decade, there are already 70,000 households of residents using liquefied petroleum gas, which constitutes 12 percent of the total number of households in the city but is below the average level in large and medium-sized cities nationwide. After the new gasworks begins production, the number of households using coal gas will reach 230,000, or 40 percent of the total number of households in the city.

According to reports, the gasworks is composed of two main parts, the gas source plant and the transmission-distribution system. The gas source plant plans to adopt the more advanced two-stage furnace imported from abroad and the total investment of the project is about 145 million yuan. At present, design of the new gasworks project is undertaken by the China Municipal Engineering North China Design Institute and an agreement with it has been signed. Concerned design personnel will arrive Guangzhou in a few days. According to the plan, the first-stage construction will be completed by the end of 1987 with a daily output of 240,000 cubic meters; the second-stage construction will be completed in 1989. In the first stage, coal gas will be supplied to some of the residents in Huangpu, Yuancun, Shipai, Shahe, Dongshan and Yuexiu districts as well as industrial and public welfare consumers.

9586

CSO: 4006/131

## CONSTRUCTION

## PROBLEMS IN REFORM OF CONSTRUCTION INDUSTRY DISCUSSED

Beijing GUANGMING RIBAO in Chinese 10 Nov 84 p 2

[Article: "Several Problems That Must be Solved In the Reform of the Construction Industry"]

[Text] Reform is being carried out throughout the building industry. In the course of reform some problems should arouse attention and should be solved.

First, we must earnestly practice qualification checks.

In launching the movement of bid submission and price negotiations, some construction units have not earnestly made qualification checks on construction work units. Particularly in the case of some small-sized hydraulic projects with construction costs under 2 to 3 million yuan, as long as the prices they quote are low, their construction capacity, techniques and equipment are not questioned. This has resulted in long delays in construction time, poor quality and even total collapse of building structures in some projects. Some construction work units cater to the likes of construction units by freely lowering their prices and waiting until they win the bids and begin work before making continuous demands to increase project costs, at which time the construction units would have no choice and the actual construction costs would be far greater than the estimates. For this reason, construction units must make qualification checks on construction work units that make bids so as to prevent individual construction work units from being there just to make up the number and from harming state interests.

Second, the state should determine rational profits for construction enterprises.

Since the question of the prices of construction has not been settled so far, it is not beneficial to further mobilize the enthusiasm of the staff workers of construction enterprises. At present, construction enterprises have by law only 2.5 percent of the profits, while the coal industry and forestal industry with similar heavy labor and field work have profits rates of 18 and 13 percent respectively. The gaps are wide and this has caused a great disparity in earned profits. Because profits from construction products are slight, construction enterprises can only rely on lowering cost, that is, lowering workers' pay, material cost, machinery cost and other additional

costs. Nevertheless, construction enterprises differ from other factories. Reduction of the cost of products is limited by many factors such as the geographic, meteorological and hydrological conditions, changes in the unit prices of local materials and the sources of labor. They ignore the objective reality and pursue excessive cost reduction rates, which will only result in shoddy work and use of inferior materials. Certainly this must never be allowed. Therefore, there is a limit to the lowering of cost. However, the profits of enterprises are low, retained profits are limited and the pressure is great.

With the intensification of reform in the construction industry, particularly the popularization of the contract system of bid invitation and the trial implementation of one-time accounting of the construction of a project, when the state is arranging capital construction budget (construction units arrange capital construction investment), rational prices should be determined for construction products to guarantee rational profits for construction enterprises. Otherwise it will be difficult for state-operated construction enterprises to develop.

Third, construction enterprises should be allowed to recruit contract workers and temporary workers from the countryside.

The reform of the system of labor employment is a key substance in the reform of the construction industry. The objective is to reduce the number of regular workers, increase the number of contract, temporary and seasonal workers, and gradually popularize the system of work contracts. The current policy requires that contract and temporary workers needed by construction enterprises can only be recruited from among unemployed youths in the cities where the enterprises are based. This makes it very difficult for construction enterprises to recruit suitable workers since most unemployed city youths are unwilling to enter the construction profession while the construction units have no choice in recruitment and can only take whoever is available, which results in many problems. Some leave their jobs after working for less than half a year; some request changing job types soon after they start; and some are in fact physically incapable. Thus reform of the system of labor employment in the construction industry must consider the characteristics of the use of workers in the construction industry, permit construction enterprises to go to overpopulated and economically less developed rural areas to recruit young peasants who have a junior, middle or senior secondary education. They can go to their posts after short-term training and passing tests. Their contracts can be for 3 years, after which a portion of the more qualified can be retained for another 3-year contract. After 6 years of work, some of the contract workers who show good performance, have a firm grasp of the techniques, have healthy bodies and can bear hardship can be selected to become regular workers to replace those who are at their retirement age or who are no longer suitable to remain on the same line, so that the enterprises will always maintain a qualified backbone construction force.

9586  
CSO: 4006/131

DOMESTIC TRADE

STRICTER CONSUMER PROTECTION CONTROLS INTRODUCED

HK020604 Beijing CHINA DAILY in English 2 Mar 85 p 1

[By staff reporter Liu Dizhong]

[Text] As China's flexible economic measures produce a welcome boon in growth of urban and rural markets and other individual and collective businesses, stricter controls are being introduced to protect consumers.

Products which are poor copies of well known brands will be the subject of a joint crackdown by the bureaus of market administration, tax and public security to safeguard both the customers and the reputations of the imitated brands.

This will be coupled with efforts to popularize understanding of the Mark Law [as published] and other market regulations which will be strictly enforced.

Speculators and other offenders will be punished, said an official of the State Industrial and Commercial Administration in an interview with CHINA DAILY.

Flexible policies taken by the state in recent years have spurred soaring development of collective and private small industrial enterprises which provide urban and rural markets with a variety of commodities.

In particular, the official said, the flourishing small industrial enterprises, totaling about 1.3 million, have helped free markets prosper throughout the country.

Last year, the number of urban and rural free markets grew to 56,000, an increase of 7,800 over 1983.

The value of transactions in the markets rose to 46 billion yuan, up more than 21 percent from the previous year.

Not only farm and sideline products but also industrial and handicraft articles were traded in the free markets which last year handled more than 10 percent of the total retail trade of the country, the official said.

Also prospering across the country are markets specializing in commodities such as clothes, furniture, poultry, meat, flowers, grain and fish. On average, there are about 100-150 such markets in each of the nation's provinces and autonomous regions, thanks to the growth of specialized rural households, of which there were 33 million last year.

He also attributed the boom of free markets to the state policy which allowed farmers to transport and sell their products after fulfilling government delivery and sales quotas. In Sichuan, Guangdong, Zhejiang and Hebei provinces more than 1.5 million rural people were engaged in transporting agricultural and industrial products.

Prices at free markets became more stable last year, the official said, adding that some farm products such as grain and cooking oil were cheaper than in previous years due to record harvests.

However, he noted, the relaxation of restrictions on collective and individual enterprise and trade at free markets also gave rise to some problems. Profiteering and consumer cheating, rare occurrences in past decades, had appeared.

Counterfeit cigarettes from Henan, bicycles from Hebei, TV sets from Beijing and Shanghai, and cassette recorders and tapes from Guangdong, all bearing well-known brand-marks, were found in both state-owned shops and free markets.

During the Spring Festival holidays, about 200,000 bottles of bogus wine poured into Tianjin, the biggest industrial city in north China. The wine, an imitation of the brand "Special Gujiang," was found to be made in Fangcheng County, Henan Province. Sale and production of the phoney wine was stopped and the case is still under investigation.

A nationwide clampdown last year reduced consumer cheating. For instance, about 830 cases were exposed last year in Zhejiang Province in a crackdown on profiteering and other unlawful activities in state-owned shops and free markets, a drop of 12 percent from the previous year.

The clampdown this year will focus on eliminating imitation of well-known brands of wine and bicycles, the official said.

CSO: 4006/447

DOMESTIC TRADE

BRIEFS

**TOWN-COUNTRY COMMODITY CIRCULATION**--Beijing, 4 Mar (XINHUA)--Last year saw rapid development of China's country fair trade, says today's **LEGAL SYSTEM** paper. By the end of last year, there were 56,220 markets in the country, 8,217 more than in 1983. In 1984, 330 million yuan (about \$US117 million) was spent on building markets, more than in the previous 4 years together. This helped bring about a boom in country fair trade, which reached 45.86 billion yuan (about \$US16.2 billion), 7.86 billion yuan (about \$US 2.78 billion) more than in 1983. This is part of China's move to invigorate the domestic economy and unblock the channels of commodity circulation between town and country. [Text] [Beijing XINHUA in English 0852 GMT 4 Mar 85]

**FUJIAN PEASANT-RUN INFORMATION SERVICE**--Fuzhou, 1 Mar (XINHUA)--Fujian's first trade information company run by a peasant industrialist opened today. Chen Li, 38, general manager of the Wanxing Trade Information Company in Longhai County, known as a hometown of overseas Chinese, told XINHUA that his company will specialize in providing up-to-date information on the international market for the rattan industry while improving the quality and design of domestic rattan products. Chen, also agent for Hong Kong's Worldwide Trading Company in Fujian Province, said the company will explore technical know-how resources and make full use of local materials and surplus labor. Chen collected market information and paid attention to improving management while he was involved in the rattanware business previously. Last year, Chen set up the Wanxing Rattan Work Industrial Company together with 13 other rattanware and furniture-making factories. The total production output value in the first year topped 400,000 yuan. The company plans to increase the production output value to 1.5 million yuan this year and will try to sell its products on the international market. [Text] [Beijing XINHUA in English 1606 GMT 1 Mar 85]

CSO: 4006/447

FOREIGN TRADE AND INVESTMENT

JOINT VENTURE TURNKEY PACKAGING PLANT SET UP WITH DANES

Copenhagen BERLINGSKE TIDENDE in Danish 18 Feb 85 p 1

[Article by Lars Dyrskjot: "Superfos Order for New Packaging Plant in China"]

[Text] If the present order, which will be delivered over the next 7 to 8 months, meets Chinese expectations, Superfos will enter into a joint venture for a new large plant worth between 50 and 100 million kroner.

After only 11 months of negotiations, Superfos Emballage has obtained an order for a packaging plant in China worth up to 10 million kroner. If this packaging plant lives up to Chinese expectations, the way will be clear for a joint venture between the Chinese plastics plant Tiajin Plastic and Superfos Emballage for a plant worth between 50 and 100 million kroner.

Until now, only the OK [East Asian Company] with its contract for a container plant, has reached agreement for a Chinese joint venture, whereas numerous British, American and French concerns have recently entered into cooperative agreements with the Chinese.

Fertilizer Trade

"I am convinced that Superfos' extensive fertilizer trade with China over the past years cleared the way for the contract for the new packaging plant and I am also convinced that the packaging factory we shall deliver to China over the next eight to nine months will completely live up to Chinese expectations," said director Ole H. Willerup of Superfos Emballage.

First Superfos will deliver those packaging machines for the new factory which will be used in a training program for key Chinese personnel for a few months, and then Superfos experts will oversee the setting up of the plant, which will be built a good 100 km from Beijing.

All Sails Set

"We are ready to set all sails to start cooperation with the Chinese," Ole Willerup said. "This will be the first time we have delivered a completely turnkey-ready plant out of house, but once we get references, I see a large market opening up for Superfos in the Middle East as well as the Far East."

Superfos' strategy in the area of packaging is based on the capacity of the packaging to be transported most profitably over a distance of 1,000 km. For this reason Superfos has built a factory in France and entered into 7 or 8 licensing agreements.

"Thus far it has been difficult for us to penetrate the American market because glass and metal packaging have dominated the market. But a licensing agreement with the third largest American packaging plant, Van Dorn in Cleveland, brought us into the market," said Ole H. Willerup.

"Sooner or later, for both consumer and economic reasons, plastic will replace the packaging we now have in the market, and for us it is simply a question of being in the market at the right time. The Cleveland agreement gives us the chance to present our customer to a number of potential customers," said the Superfos director.

12789

CSO: 3613/110

FOREIGN TRADE AND INVESTMENT

IDA CREDIT FOR TRAINING PROGRAMS RECEIVED

OW020824 Beijing XINHUA in English 0706 GMT 2 Mar 85

[Text] Washington, 1 Mar (XINHUA)--The International Development Association (IDA) has extended 148 million SDR (about \$US145 million) of credit to China for training of engineers, economists and financial specialists.

IDA, the World Bank's affiliate for concessionary lending, said Thursday the IDA-aided project is part of the first phase of the Chinese Government's long-term program to increase high-level technical and managerial skills.

The project will promote the broadening of undergraduate curricula in engineering, economics, and finance by reducing the number of specialized courses, increasing the proportion of general courses and making room for new ones.

The credit will help to finance equipment, instructional and research materials, computer facilities, and other academic support services at some 35 universities. Technical assistance for five national special service programs, fellowships, staff exchange studies and training centers will also be funded through the credit.

The credit is the second of its kind from World Bank institutions, which in 1981 lent China \$200 million to assist major Chinese universities in scientific and technological fields.

The present IDA interest-free credit is for a period of 50 years with a 10-year grace period.

CSO: 4006/447

FOREIGN TRADE AND INVESTMENT

EXPORT LICENSE SYSTEM FOR TEXTILES TO HONG KONG

OW020954 Beijing XINHUA Domestic Service in Chinese 1158 GMT 1 Mar 85

[Text] Beijing, 1 Mar (XINHUA)--With the State Council's approval, the Ministry of Foreign Economic Relations and Trade has decided to control exports of cotton yarn, cotton gray, cotton/polyester yarn, and cotton/polyester gray to Hong Kong by means of an export license system. This system of control took effect on 1 February.

For some time, a fairly chaotic situation existed in the exports of textiles from other parts of China to Hong Kong. The new system of control is designed to ensure an orderly trade, safeguard proper economic interests, stop the chaotic situation, and help maintain Hong Kong's prosperity and stability.

Since China has the technology and capacity as well as sufficient raw materials to produce these four categories of textiles, the Ministry of Foreign Economic Relations and Trade has decided that from now on, in principle, these products will not be manufactured and exported by processing materials furnished by foreign firms, through compensatory trade, or by means of joint ventures with Chinese and foreign investments. If a new contract must be signed for some specific reasons, the matter should be reported to the Ministry of Foreign Economic Relations and Trade for examination and approval.

The export license system of control over the four categories of textiles is also applicable to exports to Macao and Japan.

Customs offices in all localities will strictly exercise supervision and control, and non-licensed exporters will be dealt with according to law.

CSO: 4006/447

FOREIGN TRADE AND INVESTMENT

BRIEFS

SHANGHAI JOINT VENTURE--The Shanghai Municipal Computer Company and the China Wang An Computer Company, Limited, on 15 February formally signed a contract on a joint venture--the Sino-American Wang An Company. Vice Mayor Liu Zhenyuan and U.S. Consul-General in Shanghai (Lu Zhi) [?Thomas Brooks] attended the contract-signing ceremony. The Sino-American Wang An Company will be built in the Caohejing District, and will begin production of microcomputers in July or August this year. [Summary] [Shanghai City Service in Mandarin 0100 GMT 16 Feb 85 OW]

SINO-FRENCH JOINT VENTURE--The Hangzhou Sino-French Chemical Company Limited was inaugurated on 12 February, after being registered as a legal entity with the approval of the State Administration for Industry and Commerce. Representing the first joint venture with France with Zhejiang's chemical industry, the company will employ French advanced technology and equipment to manufacture 1,000 tons of epoxy, epoxy polyester, and polyester, as well as 1,500 tons of special-purpose polyester resin annually. [Summary] [Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 20 Feb 85 OW]

CSO: 4006/447

## SPECIAL ECONOMIC ZONES

### SHENZHEN'S EXPERIENCE, PROBLEMS IN IMPORTING CAPITAL

Shanghai SHIJIE JINGJI WENHUI [WORLD ECONOMY FORUM] in Chinese No 4, Oct-Dec 84 pp 61-65

[Article by Wang Yanmao [3769 1693 5399]: "The Shenzhen Special Economic Zone's Experience in Importing Foreign Capital"]

[Text] The Shenzhen Special Economic Zone (SEZ) has been developing so fast in the past 5 years that it puts on a different look every day. Its drive to attract foreign capital has also been very successful. Today, a brand-new socialist special economic zone has preliminarily taken shape and a new phase has just begun in its efforts to import foreign capital. The situation is encouraging, but the road ahead is also a bumpy one. How did Shenzhen try to attract foreign funds? What lessons can we learn from it? What is the present development trend? What problems do we still have to solve? This article puts forward some tentative views on these questions.

#### I

Shenzhen's 5-year drive to attract foreign capital falls into three stages, each with its own special features. Stage One: 1979-1980. Foreign investments in this period were few in number and involved limited outlays. Most of them were for projects in labor-intensive industries. Capital from Hong Kong and overseas Chinese accounted for 98 percent of total investments.

People differ in their evaluations of the first stage. We believe the achievements must be looked at in their proper context: it is unrealistic to expect large and technology-intensive projects at the outset.

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\* Strictly speaking, foreign capital and foreign businessmen should be referred to as foreign capital, overseas Chinese capital and Hong Kong capital, and as foreign businessmen, overseas Chinese businessmen, and Hong Kong businessmen respectively. For the sake of convenience, "foreign capital" and "foreign businessmen" are understood to include all of the categories mentioned above. - Editor's note.

The Shenzhen SEZ began importing foreign capital in 1979. At the time, the zone itself had just been created and everything had to start from scratch. Prerequisite to building up the zone and attracting foreign investments were a reassured public, social stability, capital construction, an improved investment climate and trained cadres. It was also essential to intensify publicity abroad and open up investment channels.

Processing industries with foreign drawings, materials or samples and compensatory trade were suited to local conditions at the time because they involved small investments, little technology and simple management, but produced quick returns. They created a large number of jobs, developed production and increased revenue within a short period of time. The city's total industrial output value increased from 62 million yuan in 1978 to 84 million yuan (in 1980 constant dollars) in 1980. The economy picked up momentum and the people began to live better.

Projects financed by the first investments provided training for a batch of workers and specialized cadres, most of whom have become the backbone of Shenzhen's skilled labor force and its corps of professional cadres. These investments also gave us the necessary experience for our future work, laying the foundation for Shenzhen's manufacturing industries. A number of the zone's leading enterprises today had their genesis in this period. For instance, there was one small commune-run factory which started out as a processing industry with foreign materials and had only 36 employees. Today, it has become a large joint venture with more than 1,600 workers making home electrical appliances for export.

Taking advantage of its proximity to Hong Kong, the SEZ mounted a vigorous publicity campaign to mobilize and give full play to the enthusiasm of the patriots of Hong Kong and overseas Chinese and their concern for the four modernizations of their motherland. The zone began by importing capital from among these groups (including Taiwan capital registered in other nations) and soon succeeded in laying the groundwork for capital importation. Hong Kong and overseas Chinese businessmen also provided a channel for the flow of future investments.

During the first stage, the zone tried to attract foreign capital actively and steadily, emphasizing practical results and making social stability its primary concern. A good deal of attention was paid to capital construction and fund-raising from among Hong Kong and overseas Chinese firms. This strategy made good political as well as economic sense. The work of the SEZ in this period can be described as successful.

Stage Two: 1981-1982. In these 2 years, 1) there were more and larger capital construction projects and the pace of construction also quickened; 2) there was a flurry of investments by foreign businessmen; 3) over 10,000 pieces (sets) of machinery and equipment, including some highly advanced ones, were purchased with foreign funds; 4) the importation of foreign capital and our linkage with the inland economy began to merge; and 5) the zone tried out a new, package-deal form of foreign investment.

A significant number of real estate projects materialized in the second stage which focused on capital construction with foreign investments. Such projects involved large outlays but little risk and yielded quick returns and big profits. Because they soon changed the look of the city and boosted the confidence of foreign investors, they were in line with the development needs of the zone. Instead of depending on state appropriations, Shenzhen relies on the special policies of the Central Committee to expedite its urban construction with an infusion of foreign funds. We should particularly take note of the fact that urban construction, financed by foreign funds, improved the investment climate and created the necessary conditions for numerous high-technology projects ahead.

During this stage, we experimented with a new, package deal form of investment. At the time it seemed quite promising, but later circumstances changed, the agreements were not carried out, the projects were sheltered and a large piece of land was left idle. This lesson should be borne in mind by other special economic zones and newly opened coastal cities.

Stage Three: 1983-early 1984. The importation of foreign capital in Shenzhen entered a new phase with the following characteristics.

1) Projects financed with foreign capital increased in number and scale. 2) As noticeably more foreign funds entered the zone, an economic structure began to take shape which accommodates multiple economic forms, but has a preponderance of joint ventures, cooperative enterprises and wholly owned foreign enterprises. 3) With the launching of a large number of projects involving advanced technology, a breakthrough was achieved in the importation of technology-intensive industries. Total industrial output value rose from 362 million yuan in 1982 to 672 million yuan in 1983. 4) The zone became more attractive to foreign investors and was able to look farther afield in its search for capital. A total of 1,130 groups (3,006 man-times) of foreign businessmen visited the zone to negotiate and conclude business deals, compared to 244 groups in 1982, or 722 man-times. They came from over 30 countries and regions including the United States, Britain, France, the Federal Republic of Germany, Japan, Australia and Hong Kong. 5) A succession of foreign banks began setting up branches in the SEZ. 6) There was a major development in the form and scale of our linkage with the inland economy which strengthened the position of the zone when it tried to induce foreign capital.

## II

By focusing on industrial development and projects involving advanced technology, the SEZ succeeded in this stage in opening up a new phase in its development. There are eight lessons we can learn from its experience.

1. Firm policy and clear direction. Since the experiment began in special economic zones, the Central Committee of the Chinese Communist Party has reiterated its open door policy. After several years of hard work, the SEZ has established a fairly substantial stronghold on an erstwhile desolate sand bank. It made a point of writing into the "Program for the Social and Economic Development of the Shenzhen Special Economic Zone" its emphasis on industrial development and the introduction of advanced technology, equipment and scientific management. In a concerted drive to attract highly technological industrial projects, it drew up an industrial development plan and establish an industrial importation leading group made up of five leaders in the city government. Achievements were especially outstanding in the Shekou area which decided not to import five types of projects (processing industry with foreign materials, compensatory trade, projects using outdated technologies, polluting industries and projects that will compete for state export quotas) and insisted on making advanced technological projects their priority. It is certainly necessary to develop commerce, services and urban construction. But when all is said and done, the bottom line is to import advanced technology, equipment and scientific management to serve the four modernizations. As Comrade Hu Yaobang said, "We can make a really significant contribution to the state only if we import these things."

2. A commitment to reform and a determination to set oneself free from the restrictions imposed by existing systems. Reform has become a way of life in Shenzhen. People have liberated their thinking and boldly experimented. Two points are particularly worthy of our attention: 1) The state has become separate from enterprises; the latter are to manage and operate themselves; and 2) A new economic management system has emerged. Unlike the old system which relied solely on administrative means, it combines such means with economic legislation and regulation by the marketplace. Shenzhen has abolished the traditional style of management under which the chain of command ran from the bureau through the company to the enterprise. Instead, it has set up specialized corporations and entrusted to them the functions of an economic entity. It is the responsibility of these state-operated specialized corporations to run and operate their own enterprises. They can invest, either alone or in cooperation with other investors, own stocks, develop in another trade or region, launch new state-operated enterprises and enter into joint ventures with foreign investors. The specialized company concerned may also be authorized by the government to exercise an external supervisory and managerial function over a wholly owned foreign enterprise. The state, for its part, oversees, guides and supervises enterprises and corporations through such macro mechanisms as administrative means, economic regulation and economic legislation in order to channel the energies of these bodies towards the mainstream of the planned national economy. Its main goal is to be a meticulous manager where broad principles are concerned but flexible with regard to details. Shenzhen has pioneered in managerial reform, setting an example for the entire nation.

3. Reach out to attract foreign capital. The SEZ took the initiative to go out and open up avenues of capital importation. It set up an office in Hong Kong called the Shenzhen Enterprise Company to step up publicity, disseminate economic information and provide investment guidance.
4. The project responsibility system proved to be a highly effective means of inducing foreign investors to set up advanced technology-based projects. Based on the development plans of trades or industries, the various specialized companies determine the priorities in their importation programs. These programs then go to the industrial importation leading group and various experts for their overall review and coordination. A person will then be put in charge of every key project. In this way, division of labor is achieved and responsibility can easily be pinpointed. By removing the middle administrative levels, the system contributes immensely to efficiency. In one instance, it took a large project only 5 months to get off the ground, from negotiations and the signing of the deal to commercial registration, the opening of a bank account and the purchase of a factory. The excessive number of middle management levels is an important reason for the slowness in importation work in some localities.
5. Use our linkage with the inland economy to promote the importation of foreign funds. In 1983, the Shenzhen city government held a working conference to discuss forging links with the inland economy, at which a number of policies and regulations were adopted. It also organized a delegation made up of professionals to visit Beijing, Tianjin and Shanghai to coordinate with enterprises inland. It became very fashionable to work with inland enterprises that year. Many of our projects with such enterprises meshed well with the introduction of foreign funds. Importation work has derived extra vitality from the marriage of the many advantages offered by the interior with the SEZ's own favorable conditions.
6. Strengthen the construction of the contingent of cadres. The SEZ has been quite successful in its cadre reform, particularly the cadre recruitment system in Shekou. To develop high-quality cadres, Shenzhou both hires Chinese and overseas experts and scholars to offer cadre training courses and sends selected young and promising cadres to universities in the interior and Hong Kong to undergo training. Today, it even has its own base for expertise development--the Shenzhou University. With the support of the Central Committee, the SEZ has recruited from all over the country a large number of professionals who are entrusted with major responsibilities in their units and given an opportunity to give full play to their expertise. They are skilled in technology and are now slowly learning to run a business. These engineers cum entrepreneurs were what Comrade Deng Xiaoping had in mind when he said, "It is very important to let knowledgeable people run the show when we build up a SEZ."

7. Make use of foreign banks, including banks owned by overseas Chinese, as channels of capital importation. Nine overseas Chinese and foreign banks have successively been approved to set up branches and representative offices in Shenzhen. They serve as a vehicle for publicity abroad, as a disseminating center of economic information and as Ta-zhi a middleman between investors and the SEZ. An example if the [phonetic] Bank of Japan which has organized a "Shenzhen investment seminar." The bank is an economic information center in the modern world. Foreign banks in the SEZ keep us up-to-date with movements in the international economy and provide us with information about international markets. They are the nerve centers of modern business and their presence in the SEZ attracts a large number of foreign business, thereby multiplying our sources of foreign capital. Modern banking is the highest embodiment of the most advanced management technique in economic management today. Opening our doors to them is clearly a very good way for us to master scientific management. As far as this issue is concerned, we must further set free our minds.

8. Improve investment climate and foster foreign enterprises. The SEZ has gone all out to effect the "seven openings and one leveling," adopt preferential policies and improve its efficiency. Foreigners have commented that the zone has become highly attractive to international investors. The trend in international investment has shifted from the pursuit of cheap natural resources and inexpensive labor towards markets which offer a good social infrastructure, a sizeable internal market, favorable terms and efficiency. The fact that the SEZ has followed this trend to a certain extent largely explains its success in its importation of foreign capital. It has also paid attention to supporting foreign enterprises. Among the projects financed by foreign capital, many are already operating profitably. It has been estimated that 88 percent of the SEZ's foreign enterprises had made a profit by the end of 1982, and the average profit rate was 18.3 percent, remarkable results given the world economic recession at the time. The experience of Shenzhen shows that apart from inducing an inward flow of capital, efforts must also be made to make sure enterprises are well managed and flourish; there must be support as well as supervision. This is an important aspect of the work of capital importation and as such deserves our attention.

### III

Let us now discuss briefly some of the existing problems in capital importation which must be resolved soon.

1. There is an urgent need to improve planning and strengthen coordination. When they go about looking for capital, some units in Shenzhen today are concerned only with the short-term profits of their own enterprises, ignoring social results. Inter-unit duplication exists to a certain extent. Electronics, for instance, is a backbone industry in the SEZ and over 80 units are into it, including those under the Shenzhen

city government, the Po'an County government, various central ministries and several municipal governments in other provinces. Although the Shenzhen city government has made it clear that no processing operations with foreign drawings, materials or samples and no projects in compensatory trade will be approved except in Po'an County, some units still continue their old emphasis on these industries because they require little technology, are easy to operate and provide a source of foreign exchange earnings. Such activities are an important reason why the SEZ has so far failed to come up with an outstanding electronics product. Some units even compete among themselves, to the benefit of foreign firms. This state of affairs can partly be attributed to the administrative inconsistencies still existent between the SEZ, on the one hand, and units under the central ministries and various municipal governments in other provinces, on the other, which undermine the effectiveness of the zone as a planner and coordinator. In our opinion, the resolution of these problems requires structural reform nationwide as well as extra efforts by the SEZ. Taking a macro view, we must coordinate the economic management systems of the central government with those of the local jurisdictions, and remove the discrepancies between the interior, on the one hand, and special zones and newly opened coastal cities, on the other. On the micro level, we must make full use of economic mechanisms to give the system of letting enterprises manage themselves a chance to succeed. Herein lies the key to solving the problems mentioned above.

2. We lack a broad range of diverse mechanisms to select the mix and form of foreign investment and can only fall back on administrative examination and approval. Right now we cannot manipulate such things as the tax system, land use fee, reductions, the proportion of goods for internal marketing, energy supply and other incentives as means of preferential treatment. In the past few years, this lack of economic devices has deprived us of our initiative in the selection of foreign investment projects and made it even more difficult to correct the exclusive concern of some units with short-term gains and their neglect of national needs and the development requirements of the SEZ. There have been cases when a foreign investor whose project involved high technology badly needed in China decided not to do business with us because we could not offer him exceptionally favorable terms. Some key projects failed to materialize because of this reason. Differential treatment is an effective approach towards getting the kind of projects we need. On the other hand, uniform treatment, the non-differentiation between domestic and foreign investments and a sole reliance on administrative examination and approval are harmful to the flexible importation of capital. Hence there is a case for establishing two kinds of preference, generalized preference and special preference. The former may be applied to projects which involve ordinary technology and produce average results; the latter, to projects involving state-of-the-art technology urgently needed by the nation and promising significant social results. This distinction can also be applied to projects which we undertake jointly with inland enterprises.

3. Economic legislation needs further improvement. A sound legal system is an effective external supervisor and manager of economic activities. It also provides the basic guarantee for the legitimate rights and interests of foreign and overseas Chinese investors. It is part of the social base which is every bit as important as the physical infrastructure. In recent years, a series of economic laws affecting foreign business have been formulated and promulgated by the central government and localities. However, we still lack legislation governing wholly owned foreign enterprises and such specialized laws as accounting law, company law, competition law, tax law, banking law, credit law, negotiable instruments law and securities law. Our experience in Shenzhen is that all these laws are badly needed.

Wholly owned foreign enterprises, which currently account for one fifth of all foreign capital in Shenzhen, have been introduced and managed with reference with laws governing cooperative enterprises. In the absence of a law that local authorities can cite, some wholly owned foreign enterprises are unwilling to accept a local settlement when an economic dispute arises. Others avail themselves of this gap in the law to avoid oversight. In the past 2 years, some did not even report their operations to the relevant departments. At the other end of the spectrum are foreign businessmen who worry about the lack of legal protection for their rights and interests. Some foreign investors have advanced technology to offer and are inclined towards doing business here. What makes them hesitate is the lack of clear protection which only a special law on wholly owned foreign enterprises can give.

To supervise and manage enterprises and other financial services effectively, we must have an accounting law. At the moment, the performance of the SEZ in this area is rather unimpressive. Because it has no law to follow, the zone cannot effectively examine and verify the accounts, books, profits and costs statistics and tax returns submitted by foreign enterprises. Nor can it properly verify the qualifications of financial personnel. Oversight over wholly owned foreign enterprises is shaky enough to begin with, for the reason noted earlier, and the lack of an accounting law does little to beef up financial supervision. A large number of overseas Chinese and foreign banking institutions have been admitted into the SEZ and newly opened coastal cities, and many more have applied to join them. At the same time, major Chinese banks have also been expanding their financial services continuously. It is certain that banking and financial services in special economic zones and coastal cities are poised for a spurt of significant growth. Hence the urgent need for a banking law, credit law and negotiable instruments law, etc. Besides, as financial channels open up among enterprises, we will also develop a dire need for a foreign exchange law. In an unprecedented move last September, the Shenzhen Sanwa Company issued stocks and floated bonds to raise funds. Since these devices using foreign funds will appear with increasing frequency in the days ahead, we will do well to consider formulating a securities law. Such laws are extremely important in establishing and preserving law and order in financial and currency transactions.

Many foreign merchants have the impression that the Chinese tax system is chaotic. They are confused as to the number of tax categories there are and have difficulty figuring out which tax rates apply to them. They also complain about the proliferation of incidental expenses. By making it hard for them to estimate their profits, all these problems ultimately affect their investment decision-making. Tax law is one of the most basic components of the economic legislation of a country and we must formulate one as soon as possible. Such a move is also important in the context of our reform to require enterprises to pay taxes, in lieu of turning over profits to the state.

We can see that after a 5-year struggle, the SEZ has achieved social stability and put together a social base for the development of a modern economy in future. A brand-new socialist economic zone has emerged, one in which foreign capital accounts for most of the capital construction funds, where the economic structure is dominated by joint ventures, cooperative enterprises and wholly owned foreign enterprises turning out products mostly destined for the world market, and where economic activities are largely regulated by the marketplace, under the overall guidance of the state economic plan. The zone is currently at the threshold of a new drive to attract foreign capital. Instead of processing industries with foreign drawings, materials or samples and compensatory trade, the new effort will look for joint ventures, cooperative enterprises and wholly owned foreign enterprises. There will also be a shift from small projects to large projects, from labor-intensive operations to technology-intensive ones, and from general projects to industrial projects. The search for capital will be worldwide, rather than being concentrated on Hong Kong and overseas Chinese. This is gratifying development and symbolizes the bright prospects ahead.

Shenzhen's work and experience in capital importation set a good example for other special economic zones and the newly opened coastal cities. If we seriously sum up our experience, try to solve existing problems realistically and further implement the open policy, capital importation will score new victories.

12581

CSO: 4006/364

## SPECIAL ECONOMIC ZONES

### SPECIAL ECONOMIC ZONES CONCLUDE MORE CONTRACTS

OW021451 Beijing XINHUA in English 1437 GMT 2 Mar 85

[Text] Beijing, 2 Mar (XINHUA)—China's four special economic zones concluded more than 1,400 contracts involving \$US900 million last year, with overseas business interests.

This was announced by Zhang Ge, deputy director of the special economic zone office under the State Council at a news briefing here today.

He said 1984 had witnessed a rapid development in economic and technical cooperation with firms in Hong Kong, Macao and foreign countries, under the policy of opening to the outside world, which was adopted in 1979.

Some \$US330 million of the contracted amount has already been invested in the zones--Shantou, Shenzhen and Zhuhai in Guangdong and Xiamen in Fujian Province.

Over the past 6 years, the four special economic zones have concluded contracts and agreements on more than 4,000 projects involving foreign investments worth over \$US4 million.

In 1984, a total investment of 2 billion yuan was made in construction projects in the four zones, 73 percent more than in 1983.

Zhang said the combined industrial and agricultural output of the four special economic zones reached 3.34 billion yuan in 1984, 62 percent more than in 1983, while revenue for the state hit 700 million yuan, up 40 percent.

To keep pace with this rapid development, the area of the Zhuhai Special Economic Zone has been expanded from 6.7 square kilometers to 15.6 square kilometers, Shantou from 1.6 square kilometers to 52.6 square kilometers and Xiamen from 2.5 square kilometers to 131 square kilometers.

CSO: 4006/447

LABOR AND WAGES

WANG SAYS BEIJING TO TRAIN MORE SKILLED WORKERS

OW120953 Beijing XINHUA in English 0751 GMT 12 Mar 85

[Text] Beijing, 11 Mar (XINHUA)--The Beijing City authorities are readjusting the structure of education to train more professionally skilled people needed in economic construction. This was announced by Wang Jun, chairman of the Beijing Planning Commission, in his report to the fourth session of the eighth municipal people's congress Monday.

Wang revealed that the city has 300,000 workers with industrial skills, about 11 percent of the work force. "This falls far short of requirements," he said.

He told the meeting that a scheme is being formulated to increase the number of college students studying economy-related disciplines, and to adjust the ratio of secondary technical school students to senior middle school students from 1:1.86 in 1984 to 1:1.34 this year. In addition, he said, adult education courses will concentrate on technical education, as opposed to general knowledge courses, as previously.

Wang said that Beijing's universities and colleges took in 30,000 students in 1984, 3,800 more than in the previous year; secondary technical schools enrolled 34,000 students, an increase of 7,800 over 1983.

In 1984, more than 70,000 workers were taking spare-time courses in workers' universities, TV colleges and correspondence colleges. Also, he revealed, out of some 130,000 adults taking college courses in their spare time, 900 [figure as received] had obtained college diplomas.

CSO: 4020/145

## LABOR AND WAGES

### REFORM OF LABOR INSURANCE BENEFITS DISCUSSED

Beijing GONGREN RIBAO in Chinese 14 Nov 84 p 3

[Article: "Labor Insurance Is the Safeguard of Workers' Basic Livelihood"]

[Text] Along with the intensification of the reform of the enterprise management system and distribution system, quite a number of units in Hubei actively seek reform of the labor insurance system. By the first half of September, 316 units of some of the enterprises in Wuhan's No 2 light industrial, textile, machinery and metallurgical systems as well as in Xiangfan had changed or adapted certain stipulations for the implementation of the original state labor insurance regulations. Among them there are state-operated as well as collective enterprises.

As a result of reform among these units, the majority of them have reduced the sick leave and medical treatment in the system of labor insurance; only one unit of the Jianghan Silk Fabric Mill in Wuhan improved the standard of retirement benefits of staff workers during the reform.

Reform of the labor insurance benefits of staff workers is an issue that has a strong character of a policy and involves a many aspects. In our investigation we saw different results from the different attitudes and methods adopted on this issue. Along with the development of enterprise production, Jianghan Silk Fabric Mill in Wuhan improved the current labor insurance benefits and aroused the enthusiasm of staff workers in making more contributions to the four modernizations. This mill is a collective enterprise with 815 staff workers. During the reform, they increased the standard retirement benefits of those staff workers who joined the work after the founding of the state and those who have 20 or more years of service from the originally highest 75 percent of basic wages to 80, 90 and 100 percent according to the contributions of staff workers toward the enterprise. Even up to now, not one staff worker has enjoyed this treatment. However, this change has made the broad masses of staff workers realize that reform is not merely to promote production development and to improve economic results, but at the same time the livelihood of staff workers should correspondingly improve. As a result, everyone at the mill is filled with hope and confidence in the reform. A young female worker at the mill named Chen Runlan [7115 3387 5695] had regenerative anemia. The mill arranged for her to take full sick leave with full pay and also permitted her to choose her own hospital for treatment and reimbursed her for what she

spent on drugs. She was deeply moved and insisted on working and getting medical treatment at the same time. Particularly moving is that the enthusiasm of a number of old staff workers who are close to their retirement age and are pending retirement has been mobilized. They rush to advance to another line, compete to make contributions and are determined to make outstanding results before retirement. During the hot season of the three months of July, August and September, the rate of attendance of the whole mill was always at or above 98 percent and new records were set in output value, output and profits.

Correct handling of labor insurance benefits of staff workers plays an active role in stabilizing production morale and concentrating energy to do a good job in reform. As the medical care of staff workers and their livelihood during sick leave are basically safeguarded, they have no fear of trouble in the rear but a sense of security so that the mass ideology and sentiments of the staff workers of these units are more stable and relations between cadres and the masses appear to be more harmonious.

Clearly, reducing the labor insurance benefits will affect the enthusiasm of staff workers.

Using reduction in labor insurance benefits of staff workers as a means to stimulate a rise in the attendance rate and to reduce current overspending on medical costs, even though it may have a certain effect, nevertheless many staff workers feel that they gain more than they lose by this reform measure. This reform measure is also unfavorable to the physical health of staff workers. Certain economic benefits brought by this measure are hard to sustain, the contradictions caused among staff workers will intensify and create an unfavorable effect on the successful implementation of reform.

Reform of the labor insurance system affects the interest of every staff worker and the broad masses of workers are very concerned. In the course of investigation, many leaders and staff workers of enterprises put forward a great deal of good opinions, which is highly advantageous to the next step in search of a correct path to the reform of the labor insurance system. They are summarized as follows:

1. Strictly differentiate between labor insurance benefits and the "big pot" of the system of distribution. According to Marx's discussion in "Critique of the Gotha Programme," the reserve fund and insurance fund used to deal with unfortunate events and natural disasters, as well as the fund established for those who are disabled for work, are all deducted "prior to distribution to the individuals" and are not within the scope of individual distribution of the means of subsistence so that they should not be distributed solely according to labor. China's Constitution also stipulates that a worker who is disabled for work because of old age or illness has the right to receive material assistance. The people of China's working class are the masters of the state and the masters of the enterprises. They have the obligation to provide labor for the society and create social wealth. When they are temporarily or permanently disabled for work they should logically receive the necessary basic material guarantees. This is the superiority of socialism and not a "big pot" that must be smashed. Therefore, reform of the labor insurance system can

only conform to principles that benefit production, medical care of staff workers and the safeguarding of the livelihood of staff workers. It is right to punish those who are lazy and poor in quality, but it is very wrong to punish the sick, the aged and the women.

2. We must gradually improve the standard of living and welfare of staff workers as reflected in production development. The test of success or failure of urban reform depends on whether the productive forces have developed, whether technical transformation has been accelerated, whether human enthusiasm has been fully mobilized and whether the living standard of workers has been improved. China's labor insurance regulations were formulated in 1951 and revised in 1953. With the exception of revision of retirement benefits twice after that, the rest has been basically unchanged. After more than 30 years of reconstruction, China's economy has developed considerably, and there will be even greater development through reform. We cannot conceive that the level of labor insurance and welfare would decline when the economy has developed. Therefore, in the course of reform enterprises can be permitted to improve some benefits which have been too low. The general level of labor insurance benefits should gradually improve along with reform and production development. This is a basic principle we must adhere to.

3. It appears that certain measures in the current labor insurance need to be reformed in order to make them even more beneficial to mobilizing the enthusiasm of the masses of staff workers. But in order to respect the democratic rights of staff workers, the reform program must be discussed and decided by the staff workers' congress. This is because changes in the labor insurance system affect the vital interests of staff workers and it is an issue concerned by all. Everyone should be roused to discuss the best way to reform. Only in this way can we best avoid being divorced from reality and the masses and assure the smooth implementation of reform.

4. Intensify the guidance on reform of the labor insurance system. The labor insurance regulations are laws of the state. They have a strong policy character, and through a period of practice in the reform there has appeared considerable effective and good experience. Workers' unions at all levels and all concerned departments should seize the opportunity to summarize and popularize them, guide reform to develop in a healthy direction. At the same time, they must strengthen policy studies and solve some of the problems which enterprises have not been able to solve. For example, price increases of medicine and medical overspending caused by large prescriptions, prescribed nutrients and increase in only sons and daughters are problems which are currently prominent and cannot be resolved by the enterprises themselves. They should be solved by means of policies through reform and earnest study.

9586  
CSO: 4006/131

## LABOR AND WAGES

### INDIVIDUAL HOUSEHOLD BUSINESSES ACTIVE IN GUANGZHOU

Beijing GUANGMING RIBAO in Chinese 6 Nov 84 p 1

[Report: "Promote Commodity Circulation, Make Life Convenient for the Masses, Provide Employment Opportunities---100,000 Individual Household Businesses Active On Streets and Lanes--Catering Trade Constitutes 36 Percent Followed by Repairing and Other Service Trades; Business Volume By End of September Over 240 Million Yuan"]

[Text] Having made observations in Guangzhou in the last 10 days, this correspondent has found that stalls of individual household businesses exist wherever there are gaps in state-operated commerce and service trades. Well known as "an army of ten thousand," individual household businesses fill the more than 1,000 streets and lanes in Guangzhou. Among these, the catering trade constitutes 36 percent and the rest are repairing and various service trades.

Individual household businesses exercise their brains and give play to their own ability to assure quality and lower cost. To lower the cost of fish ponds, Tan Jian [6223 1017] the owner of Jianji Live Fish Stand has linked up with rural fish-farming households to get his goods directly from the places of production, which results in freshness and low cost, customer satisfaction and a prosperous business. He has also imported advanced techniques in fish farming and installed oxygen pumps to carry air into fish ponds thereby increasing the survival rate of pond fish.

The individual household business is an economic cell with the family as the unit; its store is small and management is convenient and flexible. Niuji Beef Stall must sell the beef of 5 heads of cattle everyday; it is open for business on festivals and holidays and Chinese New Year's Day is no exception. Several livestock farms and food companies in the vicinity of Guangzhou provide it with the sources of goods all the year round regardless of the weather, promptly and without fail. The people of Guangdong like to eat roast chicken, roast ducks and roast geese. Several years ago there was a shortage of supply. After individual household businesses linked up with specialized rural households, fresh, live and fat chicken, ducks and geese were shipped to Guangzhou, satisfying the needs of the broad masses of city residents. One after another, individual household businesses in the catering trade purchased refrigerators to prepare delicious summer food products which are good and cheap and have been widely received by society.

There is no lack of talents among individual household businesses. He Bing [0149 3521], the owner of Yongzhi Shoestore on Wanfu Road, learned the craft of shoemaking since he was young. Since starting the business he has designed as many as 70 to 80 new styles of men's and women's shoes. As soon as they are placed in the market they are immediately sold out.

According to the figures provided by the Guangzhou Industry and Commerce Administrative Bureau, up to the end of September this year more than 100,300 people were involved in individual household businesses with a business volume of over 240 million yuan. The individual economy developed from the "third industry"; it has promoted commodity circulation and has made life convenient for the masses.

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TRANSPORTATION

TRANSPORTATION STRUCTURE REORGANIZATION URGED

Commentary

Beijing JINGJI RIBAO in Chinese 15 Oct 84 p 2

[Commentary: "Transportation Structure Must Be Reorganized"]

[Text] After 35 years of development, a comprehensive transportation network of considerable dimensions has begun to take shape in our nation. The smooth operation of this network is essential to the development of the national economy. The present problem is that the communication and transportation structure is such that it does not lend itself to promoting the free flow of goods and passengers.

The inadequacy of the communication and transportation structure reveals itself in the lack of a clear division of work among the various means of transportation, its failure to take full advantage of their strong points and the heavy load placed on railways. In passenger traffic, highway transportation is best for short distances while air transportation is best for long distances. However, according to statistics supplied by the concerned departments, among almost 1,000 two-way passenger trains operating in the nation each day, over 200 are those plying the suburbs around the large cities. The average distance between the points of departure and arrival is around 100 km while the average distance traveled by passengers is only 30 km. Over 100 two-way trains are express trains which travel across the jurisdictions of more than two railway bureaus. The distance between the points of departure and arrival is over 1,000 km and sometimes as much as 3,000 to 4,000 km. As regards the turnover volume of passengers throughout the nation, the railways are responsible for 57 percent, the highways 35.7 percent, inland river and coastal transportation 5 percent and civil aviation (including international air traffic) only 2 percent. Insofar as freight transportation is concerned, the load carried by railways is even heavier. Short-distance freight transportation by rail under 100 km comes to 250 to 300 million tons a year, or over 20 percent of the total volume of freight carried by railways, thus making the turnover rate of freight transportation by rail as unreasonably high as 71 percent of the total volume of freight in the nation.

In order to ease the transportation pressure, the urgent need of the moment is to speed up the construction of communication and transportation facilities and to bring about the necessary changes in the transportation structure. These readjustments must be made according to clearcut guidelines. That is, the various transportation media should be allowed to make full use of their strong points and to minimize the exposure of their weaknesses, the consumption of materials should be reduced to the minimum, transportation time should be shortened and service should be upgraded so that there may be a free flow of goods and that passengers may travel in comfort. Specifically, action should be taken step by step to allow the highways to transport passengers within 200 km, sundry goods within 100 km, high-quality goods within 200 km and perishable goods within 1,000 km; passengers and freight between coastal cities and along the Chang Jiang should be transported by sea or river; through transportation by water and land should be made available for the transportation of incoming and outgoing supplies in regions along the coast in the northwest, north China, east China and south China; passenger transportation for distances over 1,000 km should be handled by civil airlines; the construction of pipelines should be speeded up to handle the transportation of petroleum and natural gas.

The readjustment of the communication and transportation structure entails a great deal of work. Highway transportation, in particular, needs to be greatly developed. Steps must be taken to improve the standard and the condition of the highways, to upgrade the performance of motor vehicles, to reduce the consumption of energy and to increase the tonnage of freight. Corresponding improvements must also be made in water transportation and passenger air transportation in coordination with readjustments in the transportation structure. In the process of bringing about readjustments, consideration must also be given to the adoption of administrative and economic measures to control over the means of transportation that have an adverse effect on the economic benefits in society.

#### Improved Coordination Needed

Beijing JINGJI RIBAO in Chinese 15 Oct 84 p 2

[Article by Liang Yuzhi [2733 3768 5347] and Jin Jiao [6855 4255]: "Improvement of Transportation of Materials Through Establishment of Close Coordination"]

[Text] Since the beginning of the year, the railway departments, with the support of the economic commissions and supply departments of the various provinces, have established close coordination with the transportation departments and achieved notable gains in correcting the unsatisfactory transportation structure by the adoption of such measures as "dealing strictly with realities, engaging in investigation and research, proceeding from simple to complex problems, making use of

the experiences of selected units to promote work in the entire area, tackling the jobs on hand in different stages and approaching their tasks one at a time." According to incomplete statistics for the first 6 months of the year, the highways and waterways carried 10.05 million tons of freight, or 2.8 times the tonnage for the same period in 1983, thus making it possible for the railways to carry an additional 10 million tons of freight over middle and long distances and to speed up the flow of materials.

Four pieces of work have been done by the railway departments with the support of the concerned parties. First, a plan has been drawn up for the sharing of responsibility for transportation. For instance, the railway bureaus in Zhengzhou and Shenyang discovered from the monthly figures for the transportation of goods that over 20 percent of the goods was carried over distances under 100 km. Thereupon, they reported their findings to the local economic commissions which then organized investigation teams to study the sharing of responsibility for freight transportation between highways and railways, to acquire a clear understanding of the operations of the concerned manufacturing and mining enterprises, their sites and their loading and unloading facilities, to draw up a plan for sharing the responsibility for the transportation of freight, to inform the enterprises of the difficulty experienced by railways in coping with the volume of freight and to present to them a plan for sharing the responsibility of freight transportation. Most of the enterprises were able to take into account the interests of the concerned parties and to give the plan their support. Second, focal points have been established for the sharing of transportation responsibilities. For instance, the Harbin Railway Bureau has made the hub of Harbin the focal point for the sharing of transportation responsibilities and determined that all freight carried in and out of railway depots in the vicinity of Harbin within a distance of 100 km should be carried by highways. Third, full use has been made of water transportation. In the first half of the year, such supplies as coal, lumber and steel totaling 3.3 million tons were carried by water, thus reducing the load carried by the railways by 1.5 billion ton/kms. Fourth, better use has been made of transportation by trucks. In the first half of the year, cement in bags produced by factories in Kunming and Zhongqing totaling 1.65 million tons were carried by trucks over short distances, thus relieving the pressure on the railways and reducing losses from breakage and leakage. By making use of trucks for the transportation of import goods at the Tanggu New Harbor, Tianjin was able to put in 100,000 truck/times and to transport an additional 320,000 tons of imported materials in the first half of the year.

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TRANSPORTATION

DEVELOPMENT OF TRANSPORTATION IN NORTHERN JIANGSU

Nanjing XINHUA RIBAO in Chinese 20 Oct 84 p 2

[Article by Economic Section of Research Department of Provincial Party Committee: "Key Points in the Development of Transportation in Northern Jiangsu"]

[Text] Poor Transportation Is Main Reason for Jiangsu's Backwardness

Communication and transportation in northern Jiangsu have been greatly developed since Liberation. During the last 34 years, the mileage of inland rivers open to shipping has increased by 19 percent and that of highways open to traffic 4-fold. This development has contributed greatly to industrial and agricultural production in northern Jiangsu. Compared to southern Jiangsu, however, transportation in northern Jiangsu is extremely backward, having failed to meet the need "to speed up the development of northern Jiangsu." That is mainly due to the fact that northern Jiangsu has yet to develop a modern transportation network that is sound in structure and in which the trunk lines and branch lines mesh with each other to meet the needs for modern economic development. The trunk lines and branch lines have come up short because the transportation facilities leave a great deal to be desired and there are no railways to serve the vast northern Jiangsu hinterland. The backward state of transportation has hampered the social and economic development of northern Jiangsu. The major problems are as follows:

First, the slow ness of transportation has reduced the competitiveness of many enterprises. Except for Xuzhou and Lianyuangang which are served by railways, other cities which are far from railways have to ship their freight by water or by transferring their freight from water to railways so that the transportation cycle is much lengthened. From Yangzhou to Xuzhou, only two roundtrips a month can be made by inland river transportation while from Yancheng to Xuzhou, only one and one-half roundtrips can be made. Recently, due to the late arrival of over 70,000 pieces of pure cotton and cotton export products made by an und: wear knitting factory in Huaiyin caused by delays en route, foreign clients refused to take delivery of the goods. Although the factory is

capable of producing 1 million pieces of underwear a year, it is producing only some 300,000 pieces largely due to its failure to ship out the export products in time.

Second, profits have been reduced by the high cost of transportation. In 1983, due to the fact that northern Jiangsu had no alternative but to ship 48.3 percent of its products (only 26 percent for southern Jiangsu) by highway, whose unit transportation cost is over 10 times that of railway transportation, and by water, whose unit transportation cost is 57.5 percent over that of railway transportation, the average converted transportation cost for each 10,000 ton/km (the aggregate cost of railway, highway and water transportation) comes to as much as 969.65 yuan, or 75 percent higher than the 564.53 yuan for southern Jiangsu.

Third, due to the inadequacy of its transportation facilities, northern Jiangsu has lost the opportunity to attract a number of large and medium enterprises. At present, Yancheng has only three medium enterprises, or only 1.25 percent of the total in the province. Sensitive to the investment climate, foreign businessmen are discouraged by the inadequate transportation system. Unless transportation is developed as soon as possible, more investment opportunities will be lost to Jiangsu.

Fourth, there are formidable obstacles to the import of talent, the exchange of information and the exploitation of brainpower. Some comrades in Yancheng and other cities have become keenly aware of the difficulty of attracting experts and scholars to Huaiyin and Yancheng and of keeping scientific and technical personnel from other areas.

Fifth, the development of commodity production in the rural areas has been hampered. Aside from technical problems and the difficulty of raising capital, the industries in the villages and towns in northern Jiangsu are faced with two major problems, namely, the difficulty of coping with the ever-changing situation in the market due to the lack of knowledge of market conditions and the difficulty of competing in the market due to the high cost which discourages people from other areas from engaging in operations in northern Jiangsu and from cooperating with the local enterprises. All these problems may be traced to transportation difficulties.

The transportation capacity in northern Jiangsu under the present transportation structure is such that it can in no way expect to be able to quadruple the gross value of its industrial and agricultural production by the year 2,000. Unless a breakthrough is made in the development of transportation in northern Jiangsu, its economic development will be faced with increasing difficulties.

#### Railways Should Form Transportation Framework in Northern Jiangsu

How should transportation in northern Jiangsu be developed? In our opinion, the overall program dictates that priority should be given

to the development of harbors, railways, highways, inland river transportation and local civil aviation. With railways serving as a framework, a transportation network formed by the various means of communication and transportation should gradually be established.

We suggest that emphasis should be put on the construction of railways and on making railways the framework of the communication and transportation system in northern Jiangsu for four reasons: First, railway transportation is faster and covers a wider area and railways can reach any point in the railway network in the nation within a short period of time; second, railways can carry heavy loads and are capable of providing the transportation necessary for quadrupling the economy; third, railway transportation is low in cost, economical and efficient in terms of the overall economy; fourth, railway transportation serves to promote industrialization. Before the intensive development of their industries, all the economically developed nations have invested heavily in railways.

The view is held by some comrades that the time is past for the construction of railways, pointing out that some of the developed countries are dismantling their railways in favor of building expressways. When studying the communication and transportation structure in northern Jiangsu, we became aware of the fact that because of a certain surplus in railway transportation, such developed countries as West Germany and the United States have gradually shifted their emphasis on the development of communication and transportation from railways to other means of transportation. In our opinion, these developed countries have done so for several reasons: First is the overabundance of railways. In 1970, for instance, for every 1,000 sq km, there were 32.2 km of railways in the United States, 77.8 km in Britain and 118 km in West Germany (the present figure in northern Jiangsu is only 4.67 km); second is the rapid development of low-cost pipeline transportation; third is the massive development of civil aviation; fourth is the fact that the industries are undergoing a transition period marked by the production of electronic and chemical products and instruments which are small in volume and light in weight; fifth is the development of the automobile industry and the large number of private motor vehicles which can be used for transportation over short distances. These factors do not apply to northern Jiangsu at the present time and are not likely to do so within the next 10 or 20 years. What should not go unnoticed is that, while railways are being dismantled in a small number of developed countries, the view prevails among the nations that, because of the oil crisis and the rapid increase in world population, the 21st century will see a third upsurge in the development of railways throughout the world.

We do not subscribe to the idea of replacing railways with expressways and heavy trucks, at least for the time being. The reason is that, for a long time to come, expressways, unlike railways, are not likely to form a connecting network within the province or in the nation. Even if an expressway is constructed between Nanjing and Nantong and heavy

trucks are bought, the condition of the existing highways and the load capacity of the bridges are such that they cannot possibly accommodate the needs of the expressways. The heavy trucks not only cannot operate beyond the province but even within the province. The ordinary highways can, of course, accommodate lighter trucks, but then there will be no economic justification for the construction of expressways.

#### Unification of Views and Motivation of the Localities to Construct Railways

In the construction of railways, the localities in northern Jiangsu should learn from the experiences of such provinces as Henan. In this respect, such cities as Nantong, Yangzhou and Huaiyin have indicated active interest in the solution of the following problems within the province:

1. The need to engage in discussions in order to reach a unanimity of views. Many comrades entertain reservations as to the feasibility of constructing railways in northern Jiangsu, citing as their reasons "the lack of freight to be shipped out," "the difficulty of raising capital" and "the advantage of using boats instead of trucks for transportation in northern Jiangsu." It is our view that these reasons have yet to be justified.

As a matter of fact, the feasibility of constructing local railways in northern Jiangsu should not be open to question insofar as transportation volume is concerned. Taking the Nanjing-Nantong line as an example, according to figures cited in "The Projected Capacity of the Nanjing-Nantong Section of the Ningbo-Qidong Railway" issued by the Fourth Surveying and Planning Department of the Ministry of Railways, the volume of freight, 5 years after the Nanjing-Nantong section is opened to traffic and transportation, is expected to be 9.02 million tons from Nanjing to Nantong and 2.96 million tons from Nantong to Nanjing. These are figures given in an economic study conducted in 1978. Today, the economic situation in northern Jiangsu has improved immeasurably. The port of Nantong is being developed at a rapid rate and the freight volume has vastly increased. It is our opinion that in the construction of railways, consideration should be given not only to the volume of freight but also to the role which can be played by railways in promoting the development of the economy. Wherever railways go, industrial and commercial enterprises are rapidly developed. Among the 10 counties in the province which have succeeded in doubling the gross value of their industrial and agricultural products within 5 years, 9 towns are in counties within 5 km of the railways. These counties rely heavily on the railways for the "import in bulk" of such sources of energy and raw materials as coal and steel and for the "export in bulk" of an increasing volume of processed products. To claim that it is not necessary to construct railways in northern Jiangsu because "there is not much freight to carry" is to take a static and one-sided point of view.

To say that it is difficult to raise funds for the construction of railways does not mean that it cannot be done. First among the three reasons is that the cost of construction is relatively low. The Luoh-Fuyang Railway currently under construction in Henan Province is an inter-province railway jointly financed by the provinces of Henan and Anhui. It links up with the Beijing-Shanghai Railway in the east and the Beijing-Guangzhou Railway in the west. When opened to traffic, it will become part of the national railway network. The engineering standard of this railway is higher than that of local railways. The estimated cost of construction per km is only 825,500 yuan, which is more or less the same as the construction cost of a Class 2 highway at the present time. The second reason is that, relatively speaking, it is not extremely difficult to raise funds in our province. In 1983, the gross per capita industrial and agricultural production values in our province were 2.43-fold and 2.44-fold those of Henan Province, respectively. The amount of savings in the cities and rural areas and the private funds of the enterprises far exceed those in the neighboring provinces. If Henan Province could raise sufficient funds from various sources within a period of 20-odd years to construct a 1,300-km local railway, our provinces, with its economic resources, should have no great difficulty in raising the necessary funds from various sources to construct a number of local railways. The third reason is that railways can be constructed one at a time in northern Jiangsu and it is not necessary to raise a large amount of capital within a short period of time. If 300 km of railways are to be constructed in northern Jiangsu during the period of the Seventh 5-Year Plan, only 60 or 70 km of railways need to be constructed in a year. Even if the construction cost for each kilometer of railway should be up to as high as 1.5 million yuan, it would be necessary to raise only 80 to 100 million yuan a year.

Water transportation cannot substitute for railways. The view is held by some that with the Yellow Sea to the east, the Chang Jiang to the south and the canal to the west, northern Jiangsu should put its emphasis on water transportation rather than on railway development. Our opinion is that this problem should be approached from the overall point of view. Water transportation cannot compare with railway transportation in point of speed, reliability and transportability and cannot perform the many functions that railways are capable of performing. Furthermore, the inland river channels in northern Jiangsu are not easily navigable and the many sluice gates and locks pose considerable problems. On top of that, the conflict created between irrigation and transportation needs further reduces the effectiveness of water transportation. Not to be ignored, too, is the important fact that water and railway transportation in the same direction are not mutually exclusive. A region must resort to various means of transportation if it is to achieve a rapid rate of economic development.

2. The need to draw up a unified program and to carry it out step by step. Regarding the program for railway construction in northern Jiangsu, we suggest that consideration should be given the following: First, a link should be established between the construction of railways

and the development of harbors so that the railways may contribute to the development of the harbors and that the harbors may promote the economic development of the vast northern Jiangsu hinterland; second, a trunk line traversing the northern Jiangsu hinterland should be constructed so that a link may be established among the six cities in northern Jiangsu as well as the small cities, towns and rural areas; third, the trunk line should link up with and serve as a part of the national railway network so that the necessary conditions may gradually be created for the joint operation of the two networks.

On the basis of transportation needs and depending on the availability of funds, the program should be implemented in two stages. In the first stage, two lines should be constructed during the seventh 5-Year Plan. The first is the 280-km Nanjing-Nantong line, that is, that part of the projected Ningbo-Yangzhou line should be extended eastward to Nantong. This line will serve to step up the development of the port of Nantong and to enable northern Jiangsu to link up with railways within and beyond the province. The second is the 105-km Xinyi-Huaiyin line. Upon its completion, it will be possible for large amounts of materials in northern Jiangsu to bypass the seven locks on the Huaiyin-Xuzhou section of the canal and to be shipped by railway directly to Huaiyin for transshipment, thus speeding up the transportation process. In the second stage, a trunk line should be constructed across the northern Jiangsu hinterland (Huaiyin to Yangzhou) during the Eighty 5-Year Plan and the Ninth 5-Year Plan periods to be followed by the construction of a network linking up the various cities. A train ferry should also be established between Yangzhou and Zhenjiang to link up with the Shanghai-Ningbo Railway. Efforts should, at the same time, be made to obtain investment funds from the state or from Shandong and Anhui to engage in a joint venture to construct a railway to Bengbu in Anhui in the west and to Linyi in Shandong in the north. Thus, a railway network will be established in northern Jiangsu and two railways will be constructed to extend to other provinces so that the economic need to extend and to establish a link within the province will be met.

3. The need for the province to take the lead in engaging in joint projects of construction. The various localities should be encouraged to engage in the construction of local railways. The experiences gained by Henan Province indicate that funds should be raised from various sources, especially the districts and counties, and that the main responsibility of the province was to draw up a program, to exercise leadership and supervision and to deal with the major problems. A lesson should be drawn from the experiences of Henan Province.

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TRANSPORTATION

CONSTRUCTION OF RAILWAY LINE IN HUNAN DEBATED

Beijing JINGJI RIBAO in Chinese 23 Jul 84 p 1

[Article by Zhao Mingjie [6392 2494 2638]: "Debate Continues Over the Construction of a Railway Line in Hunan"]

[Text] A debate is going on in the Hunan provincial capital of Changsha as to whether a proposed railway should not be built.

In compliance with the instructions of the leadership comrades in the CPC Central Committee, Hunan is currently engaged in the development of "water transportation in the north and railway transportation in the south" with emphasis on water transportation. This specific program is known as the three major direct water transportation routes, "one horizontal and two vertical." One of the two vertical routes originates from Changsha, cuts through the eastern part of Dongting Lake via Xiangyin to Chenglingji before entering the Xiang Jiang. The other is the Jin-Mao route (from Tianjin to Maocaojie) which originates from Lishui, enters the Xiang Jiang at Linzikou via the western part of Dongting Lake and continues on to Xiangtan. The horizontal route originates from Changde, goes to Chenglingji via the Maocaojie-Kaihu route and enters the river at Chenglingji. The main purpose is to set up a water transportation network navigable to 300 to 500-tons shipping in the northern part of the province. The focal point is placed on the second vertical route (the Lishui-Xiangtan route) because, after its completion, it will be able to run through the lower reaches of the four large inland rivers of Xiang Jiang, the Zhi Jiang, the Yuan Jiang and the Li Jiang so that the entire water transportation system in the north will come to life. This route will also be able to use the Zhi-Liu route (from Zhicheng to Liuzhou) in the vicinity of Xinan at Lishui to transship coal to various areas in the province, to relieve the shortage of coal in Hunan and to earn sizable additional incomes for the state and the transportation enterprises themselves.

Plans, however, have recently been made by the railway departments to construct a railway from Shimen Zhen on the Zhi-Liu line to Changsha, basically a lakeside railway hugging the Lishui-Xiangtan route. This is strongly opposed by the transportation departments of Hunan Province

which hold the view that since Changde, Yiyang and Ningxiang, through which the railway must pass, are major centers for the assembly and distribution of goods within the province, the proposed railway would string them up like sugar coated haws on a stick, take away all the goods and nullify the plan for "water transportation in the north." The railway departments, however, maintain that the construction of this branch line is necessary because of the steep gradient and the slow speed of the Tahe-Wushengguan section of the Nanjing-Guangdong Railway which carries coal from the north to the south, that its capacity is already taxed to the full, that the Hunan-Guizhou Railway can only supply the increased amounts of coal and phosphorus needed by Yunnan and Guizhou and that consideration must, therefore, be given to the construction of the Shimen-Changsha line as a diversionary connecting line so that a larger quantity of coal may be transported to Guangdong. They maintain that this branch line is mainly responsible for the interflow of goods between areas in the north and those south of Changsha along the Nanjing-Guangdong Railway and not for the transportation of goods in localities close to Dongting Lake. Furthermore, only a small amount of coal needed by Hunan can be supplied by Guizhou via the Zhicheng-Liuzhou line and that it has to look to the north for a major part of its coal supply. The construction of this railway is, therefore, necessary to supply the energy resources that Hunan Province needs.

Most of the experts in the study group are, however, opposed to the construction of this railway for the three following reasons:

1. A change is likely to take place in the direction of flow for the transportation of coal from the north to the south. It is true that at the present time, the capacity of the Nanjing-Guangdong Railway is being taxed to the full. However, with the resumption of traffic between Chengzhou and Xuzhou and the imminent completion of the railway hub (a major marshaling yard) at Xuzhou, an additional 10 million tons of coal from southern Shanxi and western Henan can be carried by the Eastern Longhai Railway to Xuzhou from where it can be shipped to Shanghai via the canal. The newly completed Tahe-Zhoukou line, when linked up with the Zhoukou-Fuyang-Nanyang line, can reach Yixikou via the Huainan Railway so that coal can be shipped to Shanghai via the Chang Jiang. Coal from southern Shanxi can also be shipped via the Xinxiang-Heze-Kunzhou Railway to the port of Shijiusuo from where it can be shipped by sea to the provinces and cities along the coast in the south. It is understood that plans are being made by the railway departments to construct a new line from Xiangfan to Nanjing. These east-west railways will thus be able to ship large amounts of coal from southern Shanxi and western Henan to the east. It is expected that the amount of coal carried by the Nanjing-Guangdong Railway from north to south will be reduced by 70 to 80 percent and that the problem posed by the pressure on the Tahe-Wuhan section of the railway will be basically resolved.

2. It is the policy of the state that coal from southern Shanxi should be shipped by sea. The state has made vast investments in the construction or extension of the four large ports of Qinhuangdao, Qingdao, Lianyungang and Shijiusuo so that coal may be shipped directly to the port of Huangpu in Guangdong. The state has also invested heavily in the construction and repair of the Beijing-Qinhuangdao and the Dalian-Qinhuangdao special lines for the transportation of coal. Transporting coal from Shanxi, circuitous as it may seem, is actually faster than hauling coal by railway and cheaper in cost. From the technical and economic points of view, transportation of coal by sea is not only justifiable but also serves to lighten the load placed on north-south railways.

3. Insofar as the coal from the north needed by Hunan Province is concerned, the shipping departments of the province are of the view that, upon its completion, the Liling-Xiantan shipping line will be able to handle the entire amount of coal carried by the Zhicheng-Liuzhou Railway and that it would not be necessary to construct the Shijiusuo-Changsha branch line.

How much coal from the north will have to be carried by the Beijing-Guangdong Railway to Guangdong? The amount is not likely to be large. If it is necessary to construct a connecting branch line between the Beijing-Guangdong and the Zhicheng-Liuzhou railways to facilitate the flow of goods from north China to areas south of Changsha, then would it not better conform with the policy of relying on "water transportation in the north and railway transportation in the south" to construct this branch line further to the south? Why must a railway be constructed so close to the water transportation network bordering Dongting Lake?

The dispute over the construction of the branch line between Shijiusuo and Changsha led this reporter to seek a better understanding of the problem of dealing properly with the relationship between railway and water transportation. Experts are of the opinion that such modern means of transportation as railway transportation, highway transportation, water transportation, civil air transportation and pipeline transportation each has its special features, that they are not mutually exclusive, that they do not conflict with each other and that an overall three dimensional communication and transportation network must be established to promote the economic development of a region. As to how to deal properly with the relationship between railway and water transportation in the history of the development of transportation in the various countries, a lesson may be drawn from the experiences of the United States and the Soviet Union.

During the "railway craze" following the "gold rush" prior to and after the Civil War in the United States, the federal government offered all kinds of incentives to encourage the capitalists to engage in the construction of railways. By 1916, over 400,000 km of railways had been built in the nation. Later on, tens of thousands of km of railways

were added to the railway network that extended in all directions. So dominant were the railways and so little use was made of river transportation that it was virtually ignored. It was not long, however, before the failings of railways gradually came to be recognized. The problem was that branch lines must converge on trunk lines and that the more branch lines there were, the more crowded the trunk lines became. This overcrowding inevitably resulted in the immobilization of certain branch lines and a "more haste, less speed" situation gradually developed. Consequently, many money-losing branch lines had to be abandoned. Having learned the mistake of relying exclusively on railways, the federal government has, since the 1930's, invested in the development of the Tennessee and other rivers, improved shipping and resorted to the use of fleets of a series of barges towed from the front and pushed from behind as well as large boats towing a string of smaller boats. As a result, transportation was greatly speeded up, transportation cost went down, the volume of freight was greatly increased and transportation enterprises thrived as never before. In the last 20 years, due to such factors as the oil crisis and the development of expressways, the railways, unable to compete with river transportation in terms of cost and with expressways in terms of speed, entered into a period of decline. Over 100,000 km of railways (mostly parallel to the rivers) have been dismantled throughout the nation. This historical episode testifies to the folly of relying on railways alone for communication and transportation and to the fact that, sooner or later, use must be made of river transportation. This tortuous road is one which we must avoid.

Under the guidance of a planned economy, emphasis was put by the Soviet Union on the comprehensive use of the various means of communication and transportation. Great development was made in railway, highway, water, air and pipeline transportation, especially since the 1950's. Although the major rivers are usually frozen 4 months of the year, the Soviet Union has not overlooked the importance of water transportation. On the contrary, following the war in defense of its territory, the Soviet Union speeded up the development of the Volga-Don Canal first proposed by Lenin, opened navigation for 3,000-ton shipping to the five seas and contributed greatly to the exploitation of mineral resources in the northernmost parts of the country. The Soviet Union is currently investing heavily in railways to meet the needs of the national economy to increase transportation volume.

We should learn from the experiences of the United States and the Soviet Union and take advantage of the strong points of a planned economy to develop a comprehensive national transportation network that suits our conditions. Speaking of the nation as a whole, railway transportation still occupies a position of paramountcy, although specific assessments must be made of specific regions. Generally speaking, water transportation should not be developed at random in regions north of the Longhai Railway since they are best suited to railway and highway transportation. In the south, and especially in the region serv

the Chang Jiang river transportation network, priority should be given to water transportation and the organization of through railway and water transportation. It is only thus that duplication in construction can be avoided and that the limited investment funds of the state can be used to the best economic advantage in society.

Would it be advisable to construct railways parallel to rivers and lakes? Experts are agreed that the answer depends on the objective circumstances. If the volume of transportation is too large for water transportation to cope with, there is no reason why a railway or even two railways should not be constructed parallel to a river or on both banks of a river. Under present circumstances, however, it is best not to construct a railway parallel or close to a river.

While on a study tour of Sichuan, we also heard the call for consideration being given to the proper layout of railways. After the Xiangyang-Chongqing Railway was opened to traffic, the entire volume of freight formerly handled by the Qu Jiang was transported by land, forcing the Daxian Shipping Co to close down and putting the livelihood of thousands of workers in jeopardy. What is done cannot be undone and there is no use crying over spilt milk. Debate is still going on as to whether to abandon the construction of the Shijiusuo-Changsha branch line or to delay its construction so as to give the water transportation enterprises in Hunan a breathing spell and a chance to stage a revival until the results of the implementation of the plan of "water transportation in the north" and the trend of economic development become better known.

9621  
CSO: 4006/106

TRANSPORTATION

RECORD NUMBER USE TRAINS DURING SPRING FESTIVAL

OW122020 Beijing XINHUA in English 1553 GMT 12 Mar 85

[Text] Beijing, 12 Mar (XINHUA)-- Chinese railways carried 143 million passengers over the spring festival holiday between 31 January and Monday, the Ministry of Railways said here today.

This was 16 million more than the figure for the same period of last year, an official said.

A daily average of 3,580,000 people used the trains over the holiday, compared with about three million normally. The daily peak hit 4,120,000.

More than 9,500 extra trains were laid on to carry the extra passengers.

The lunar new years, which fell on 2 February this year, is a traditional occasion for family reunion, and around that period, people travel all over the country to visit friends and relatives.

CSO: 4620/167

TRANSPORTATION

DALIAN TO BEGIN AIR SERVICE TO JAPAN, HONG KONG

OW121003 Beijing XINHUA in English 0654 GMT 12 Mar 85

[Text] Dalian, 12 Mar (XINHUA)--The City of Dalian, Liaoning Province, will begin running chartered passenger flights to Japan next month and to Hong Kong in May, local officials said today.

Later this month, new air routes from Dalian to Guangzhou, Tianjin, Dandong, and Harbin will be opened. Thirty-one flights a week are planned. Air services are already available to Beijing, Shanghai and Shenyang.

When the six-flights-a-week service between Dalian and Guangzhou is launched on Saturday, passengers from Hong Kong and Guangzhou will no longer have to change planes in Beijing or Shanghai.

Dalian is one of the 14 coastal cities which was opened wider to foreign trade and investment last year.

In January alone, more than 750 business people from 20 countries and Hong Kong visited Dalian--more than the total in the first three months of last year.

A 3,200-meter runway was completed at Dalian airport last year. Work will begin this year on a new ticket office and a tourist hotel in central Dalian. Design work on a new terminal will also start.

CSO: 4020/147

TRANSPORTATION

YINGKOU PORT IN BOHAI BAY REOPENS EARLY

OW121413 Beijing XINHUA in English 1218 GMT 12 Mar 85

[Text] Shenyang, 12 Mar (XINHUA)--Yingkou Port in the Bohai Bay, northeast China, was reopened on Sunday after the winter freeze--10 days earlier than last year.

In addition, the big freeze began on 5 December, compared with 15 November in previous years, so the port was closed for only three months instead of four, officials said today.

The port, which was opened to foreign ships last October, plans to handle 800,000 tons of cargo this year, up 60 percent from last year's record figure of 490,400 tons. Its handling capacity is expected to rise to 1,200,000 tons next year.

Nearly 10 million yuan was spent on modernizing the port last year, officials said.

Two foreign trade goods warehouses and one stockyard were completed, and cranes and barges added.

Ships spent an average of 3.2 days loading or unloading last year, compared with four days previously.

Yingkou now has four berths capable of accommodating 3,000-ton ships.

Some 10 million yuan will be used this year for building two new berths, warehouses and roads, and 100 million yuan will be spent on a new harbor zone, 70 kilometers southeast of the present one.

Two coal berths to handle five million tons a year are to go into operation in July, 1986.

CSO: 4020/147

TRANSPORTATION

BRIEFS

DALIAN-CUANGZHOU SHIPPING ROUTE--Dalian, 10 Mar (XINHUA)--China's longest home marine route between Dalian and Guangzhou will be opened by the end of this month, local officials said here today. Fleet running the new 1,300-nautical mile route will be operated by the Guangzhou Marine Transport Bureau. There will be two scheduled passenger liners each month, with only one stop at Qingdao Port, Shandong Province. Both Guangzhou and Dalian are coastal cities opened last year to foreign trade and investment. [Text] [Beijing XINHUA in English 0229 GMT 10 Mar 85 OW]

CSO: 4020/147

PUBLICATIONS

QINGHAI TO BEGIN PUBLISHING WEEKLY ECONOMIC PAPER

HK120306 Xining Qinghai Provincial Service in Mandarin 1100 GMT 10 Mar 85

[Text] The QINGHAI JINGJI BAO [QINGHAI ECONOMICS] will start publication soon. QINGHAI JINGJI BAO will be sponsored by the Provincial Finance and Economic Committee. Its aim is that in light of our province's situation and centered on the requirements of the general task and the general aim formulated by the 12th Party Congress, it will publicize and implement the instructions of the provincial CPC Committee and the provincial government on economic work, will sum up and exchange new experiences in practical work with the spirit of reform, will explore the theoretical and practical problems of economic work in our province, will provide sources of information, will convey economic information, will start undertakings, will invigorate the economy, and will play a role in pushing forward the promotion of economic reform and technological progress and the improvement of the quality of enterprises.

QINGHAI JINGJI BAO will be a periodical of four pages, which will be published once a week. The main contents of the paper will be: The spirit of the central authorities the method of leadership, the window of reform, theory and practice, modernized management, development strategy, a forum on readjustment, exploitation and progress, experiences of special zones, international markets, technological and economic cooperation, flow of qualified personnel, local products, the province's products abroad, importing of experiences, informal essays on markets, the economic situation, knowledge and forecasts, and sources of information.

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